MANITOBA

REPORT OF THE PROVINCIAL AUDITOR

to the Legislative Assembly for the fiscal year ended March, 1983

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REPORT OF THE PROVINCIAL AUDITOR FOR THE YEAR ENDED MARCH 31, 1983

LEGAL PROVISIONS AND INTRODUCTORY COMMENTS

This report is being made to the Legislative Assembly of Manitoba for the fiscal year ended March 31, 1983 in compliance with subsections (1), (1.1), (2) and (3) of section 13 of The Provincial Auditor's Act. These subsections of section 13 of the Act are as follows:

Report to assembly.

13(1) The Provincial Auditor shall report annually to the assembly

(a) on the work of his office; and

(b) on whether, in carrying on the work of his office, he received all the information and explanations he required.

Content of the report.

13(1.1) Each report of the Provincial Auditor under subsection (1) shall call attention to anything that he considers to be of significance and of a nature that should be brought to the attention of the assembly, including any cases in which he has observed

(a) that accounts have not been faithfully and properly maintained or public moneys which are required by law to be fully accounted for and paid into the Consolidated Fund have not been so accounted for and paid;

(b) that essential records have not been maintained or that the rules and procedures applied have been insufficient

(i) to safeguard and control public property, or

(ii) to secure an effective check on the assessment, collection and proper allocation of the revenue, or

(iii) to ensure that expenditures have been made only as authorized; and

(c) that public moneys have been expended other than for the purposes for which it was appropriated by the Legislature.

Submission of report.

13(2) The report of the Provincial Auditor shall, on or before the thirty-first day of December next after the close of the fiscal year for which it was made, be delivered to the Lieutenant Governor in Council to be laid before the assembly if it is then in sesssion, or, if the assembly is not then in session, within fifteen days after the commencement of the next ensuing session.

Distribution of report to members of assembly.

13(3) The Lieutenant Governor in Council, upon receiving the report of the Provincial Auditor, shall direct that copies of the report be sent to the members of the assembly.

In accordance with the aforementioned requirements of the Act, I must report on significant matters where difficulties have been observed and any other matters which I consider should be brought to the attention of the Legislative Assembly. This is being done in a manner as outlined in Exhibit 1 of this report under reporting procedures. In reading this report, the manner of reporting by exception must be kept in mind so that an excessive negative impression of the overall operations is not concluded. The report also maintains continuity of matters reported from year to year. Any observations in the previous year's report which required further action are commented on again in this year's report, providing an updated position.

LEGAL PROVISIONS AND INTRODUCTORY COMMENTS

I also report that, in carrying on the work of my Office, I received all the information and explanations I required.

The various matters being reported are commented on under the following headings in this report:

- Assets and Liabilities - Overview Comments
- Operating Fund Assets and Liabilities
- Trust Fund Assets and Liabilities
- Revenue and Expenditure
- Special Warrants
- Government's Central Management System
- Departments and Agencies Operations
- Organization and Activities of the Provincial Auditor's Office
- Acknowledgements

The report also includes 12 exhibits which provide additional information for matters commented on. A number of these exhibits are reproductions from the Public Accounts - the main financial statements and my report thereon. A list of the exhibits is provided on page 43.

ASSETS AND LIABILITIES - OVERVIEW COMMENTS

Accounting policies

The assets and liabilities are accounted for in accordance with accounting policies stated in the Public Accounts and reproduced in this report in Exhibit 12. The assets and liabilities are reflected in the Consolidated Fund which is divided into two sections: operating fund assets and liabilities; and trust fund assets and liabilities. Except for discontinuance of reserves commented on last year, there were no changes in accounting policies during the fiscal year ended March 31, 1983.

Operating fund assets and liabilities

The operating fund assets and liabilities are stated in the Public Accounts, and the statement is reproduced in this report in Exhibit 8. The total liabilities increased by $976.1 million at March 31, 1983 from the preceding year end, from $3,471.0 million to $4,447.1 million. The increase resulted from increases in: the public debt of $710.8 million; the amount of trust funds used for operations of $184.1 million; and accounts payable and other liabilities of $82.4 million, less a decrease in reserve accounts of $1.2 million.

Funds resulting from the increased total liabilities of $976.1 million were used to finance: the deficit for the year ended March 31, 1983 of $434.7 million; the additional investments in and the conversion of guaranteed debt to direct debt of crown corporations of $367.4 million; and the increase in temporary investments and other assets of $174.0 million.

There was a decrease of $158.1 million in the total guaranteed and indirect liabilities at March 31, 1983 from the preceding year end, from $1,821.8 million to $1,663.7 million. The decrease of $158.1 million mainly results from maturing debt being refinanced from proceeds of debentures issued in the name of the Province and is offset by an increase in the direct debt of the Province.

More detailed comments and analysis concerning these assets and liabilities are made in the Operating Fund Assets and Liabilities section of this report.

Trust fund assets and liabilities

The trust fund assets and liabilities are stated in the Public Accounts, and the statement is reproduced in this report in Exhibit 8.

The trust fund assets and liabilities are segregated into two categories: administered trust funds; and custodial trust funds.

The administered trust funds increased by $181.8 million at March 31, 1983 from the preceding year end, from $702.0 million to $883.8 million. This increase mainly arises from increased funds on deposit for investment of $167.7 million. Most of these funds pertained to short term investments of utilities' borrowings and Manitoba Public Insurance Corporation reserve increases.

The custodial trust funds increased by $28.0 million at March 31, 1983 from the preceding year end, from $587.2 million to $615.2 million. This increase mainly arises from increases in securities of the Public Trustee of $15.4 million and the Civil Service Superannuation Fund of $12.8 million.

Further particulars are provided concerning these trust funds in the Trust Fund Assets and Liabilities section of this report.

OPERATING FUND ASSETS AND LIABILITIES

Working Capital

The particulars of the working capital are as follows (*in millions of dollars*):

	March 31		Increase
	1983	1982	(Decrease)
Assets			
Temporary investments	$ 772.8	$ 604.3	$ 168.5
Current amounts due from Canada and other external sources	33.5	33.4	.1
	806.3	637.7	168.6
Liabilities			
Amount owing to the Trust Fund	497.5	313.4	184.1
Bank overdraft and promissory notes	18.6	53.6	(35.0)
Accounts payable, accrued charges and funds subject to call	367.6	250.3	117.3
	883.7	617.3	266.4
Assets (under) over liabilities	$ (77.4)	$ 20.4	$ (97.8)

The cash flow, except for bank short-term borrowing and trust funds, is generally consistent from year to year. The ratio of assets to liabilities is mainly dependent on the timing of long-term borrowing to refinance short-term bank borrowing. There can also be fluctuations in the amount of trust funds used depending on their availability. In accordance with an order of the Lieutenant Governor in Council, the aggregate of promissory notes outstanding and bank lines of credit utilized is not to exceed $350 million.

In addition to the current amounts due from Canada and other external sources shown above of $33.5 million at March 31, 1983 ($33.4 million at March 31, 1982), accounts receivable from municipal corporations and other third parties of $34.3 million at March 31, 1983 ($28.8 million at March 31, 1982) are included in the Public Accounts in Advances and Other Receivables from Government of Canada and Others amount of the Operating Fund Assets and Liabilities statement. All these accounts are considered to be collectible.

Last year I reported that the recording of transactions in accordance with the present accounting policies does not reflect a complete working capital position. Vouchers paid in April pertaining to services, etc., to March 31 are recorded as accounts payable as at March 31. On the other hand, school expenditures to March 31, recoverable from the Province and financed by school divisions from bank loans, are not recorded as accounts payable as at March 31. These expenditures amounted to $72 million as at March 31, 1983 ($66 million as at March 31, 1982). With regard to cash receipts, receipts in April pertaining to taxes to March 31 collected by agents are not recorded as accounts receivable as at March 31. These receipts amounted to $49.5 million as at March 31, 1983 ($37 million as at March 31, 1982). The present year end accounting treatment of interest income and interest expenditure, with the interest income being stated on a cash basis and the interest expenditure on an accrual basis, should also be reconsidered. Under the present accounting policies, which are mainly directed towards disclosing the cash position and not costing of operations on an accrual basis, the logic of accruing interest expenditure is questionable. In any event, there should at least be a consistency in the treatment of interest income and interest expenditure. I recommended last year that consideration be given to changing the accounting policies to more appropriately reflect the year end financial position. Changes have not been made as yet, therefore, the inconsistencies in the year end financial position disclosure remain.

OPERATING FUND ASSETS AND LIABILITIES

Advances to and Long-Term Investments in Government Agencies, Tantalum Mining Corporation of Canada Limited and Northland Bank

The particulars of advances and long-term investments are as follows (*in millions of dollars*):

	March 31		
	1983	1982	Increase
Government agencies:			
Advances	$ 2,031.3	$ 1,652.6	$ 378.7
Investments	243.5	239.3	4.2
	2,274.8	1,891.9	382.9
Other investments:			
Tantalum Mining Corporation of Canada Limited	3.3	3.3	-
Northlands Bank	.5	.5	-
	2,278.6	1,895.7	382.9
Less:			
Allowances for losses on the basis of accumulated deficits in accordance with the most recent audited financial statements	134.9	114.0	20.9
Sinking funds of government agencies on account of debt incurred by the Province	83.9	68.2	15.7
	218.8	182.2	36.6
Net amounts	$ 2,059.8	$ 1,713.5	$ 346.3

Investments in government agencies are the same as advances except that they are covered by legal instruments consisting of debentures and shares.

The increase in advances to government agencies of $378.7 million shown in the foregoing statement is accounted for as follows (*in millions of dollars*):

Advances, net:	
Manitoba Hydro-Electric Board	$ 266.7
Manitoba Telephone System	60.1
Manitoba Forestry Resources Ltd.	12.5
Manitoba Housing and Renewal Corporation	12.0
Manitoba Agricultural Credit Corporation	11.9
Manitoba Development Corporation	11.1
Manitoba Beef Stabilization Fund	4.0
Manitoba Mineral Resources Ltd.	2.6
Other	1.3
	382.2
Repayment of advances, net:	
Other	3.5
Net increase	$378.7

A substantial amount of the advances to the Manitoba Hydro-Electric Board and the Manitoba Telephone System apply to refinancing of guaranteed debt, the particulars of which are shown under the Guaranteed Public Debt section of this report.

OPERATING FUND ASSETS AND LIABILITIES

Advances to and Long-Term Investments in Government Agencies, Tantalum Mining Corporation of Canada Limited and Northland Bank *(Continued)*

The principal repayments and/or interest charges for some of the advances are dependent on total or partial funding from future appropriations of the Consolidated Fund. The balances of the larger such advances were as follows (*in millions of dollars*):

	March 31		Increase
	1983	1982	(Decrease)
Manitoba Agricultural Credit Corporation	$ 173.2	$ 161.3	$ 11.9
Manitoba Housing and Renewal Corporation	76.3	64.3	12.0
Manitoba Water Services Board	15.0	15.7	(.7)
Manitoba Data Services	10.7	11.5	(.8)
Manitoba Beef Stabilization Fund	4.0	-	4.0
Manitoba Crop Insurance Corporation	2.9	3.9	(1.0)
Manitoba Mineral Resources Ltd.	2.6	-	2.6
Interest Rate Relief Program	2.4	-	2.4
St. Boniface Sanitorium re St. Amant Ward	2.3	2.5	(.2)
	$ 289.4	$ 259.2	$ 30.2

The increase in investment in government agencies of $4.2 million is attributable to: a conversion of interest payable to the Province of $4.4 million by Manitoba Forestry Resources Ltd. to an investment in 9% non-cumulative income debentures maturing on March 31, 2008; and, a reduction of $.2 million in the debentures of Leaf Rapids Town Properties Ltd. by way of repayment.

The increase in allowance for losses of $20.9 million is explained in the next section dealing with changes in the excess of liabilities over recorded assets.

The increase in sinking funds of $15.7 million arises from a net increase in payments by crown corporations in accordance with legal requirements.

Excess of Liabilities over Recorded Assets

The particulars of excess of liabilities over recorded assets are as follows (*in millions of dollars*):

	March 31		Increase
	1983	1982	(Decrease)
Accumulation of the excess of expenditure over revenue and advances to and investments in government agencies written off	$ 1,411.8	$ 977.1	$ 434.7
Allowances for losses of government agencies	134.9	114.0	20.9
	1,546.7	1,091.1	455.6
Less, reserve accounts	-	1.2	(1.2)
	$ 1,546.7	$ 1,089.9	$ 456.8

Further particulars concerning the above increases and decreases:

OPERATING FUND ASSETS AND LIABILITIES

Accumulation of excess of expenditure over revenue and advances to and investment in government agencies written off

The increase of $434.7 million represents the excess of expenditure over revenue for the year ended March 31, 1983. The accumulated excess of expenditure over revenue includes expenditure for lasting tangible assets such as buildings and roads, and lasting intangible benefits such as education. It is offset by public debt which is being serviced from future revenue and/or additional borrowings.

Allowance for losses of government agencies

The increase of $20.9 million in the allowance for losses of government agencies is accounted for as follows (*in millions of dollars*):

Increases - deficit provisions:	
Manitoba Forestry Resources Ltd.	$ 15.3
Manitoba Beef Stabilization Fund	3.6
Manitoba Development Corporation, including A. E. McKenzie Co. Ltd.	3.0
	21.9
Less:	
Other - reductions in deficits	1.0
Net increase	$ 20.9

Reserve Accounts

The reserve accounts have been abolished effective April 1, 1982 and the balance of $1.2 million was utilized during the year.

Direct Public Debt

A summary of direct public debt and other data pertaining thereto is as follows (*in millions of dollars*):

Direct public debt, net of sinking funds:

	March 31		
	1983	1982	Increase
Bonds, debentures and other securities	$ 4,005.1	$3,193.9	$811.2
Less, sinking funds	412.2	341.3	70.9
	3,592.9	2,852.6	740.3
Less, debentures issued under Grant Assistance Agreements, see particulars below	29.5	-	29.5
	$ 3,563.4	$2,852.6	$ 710.8

Debentures of $29.5 million were issued in accordance with agreements between the Province and the Credit Union Stabilization Fund for $25.0 million, and between the Province and Les Fonds de Sécurité des Caisses Populaires for $4.5 million. The debentures are being held by the Province to be cancelled at maturity July 7, 1987. The purpose of these debentures is to provide annual grants to the aforementioned entities equal to the annual interest of 14 7/8 percent stated for the debentures. The annual grants are charged to an appropriation voted for this purpose in the Department of Co-operative Development.

OPERATING FUND ASSETS AND LIABILITIES

Direct Public Debt *(Continued)*

The direct public debt is repayable in the following currencies:

	March 31		Increase
	1983	1982	(Decrease)
Type of Currency			
Canadian Dollars	$ 2,053.0	$1,674.0	$ 379.0
Foreign debt stated at exchange rates at the date the debt was incurred:			
Swiss Francs	518.4	406.6	111.8
United States Dollars	1,141.2	863.6	277.6
Japanese Yen	184.1	113.2	70.9
Deutsche Marks	67.6	67.6	–
European Units of Account	40.8	42.7	(1.9)
Hong Kong Dollars	–	26.2	(26.2)
	1,952.1	1,519.9	432.2
	$ 4,005.1	$3,193.9	$ 811.2
Foreign debt calculated at exchange rates at each year end	$ 2,144.8	$ 1,741.1	$ 403.7

Foreign debt due within the next three fiscal years, comparing book value with value at exchange rates at March 31, 1983:

	March 31					
	1984		1985		1986	
	Book Value	Rated Value	Book Value	Rated Value	Book Value	Rated Value
Type of Currency						
Swiss Francs	$254.7	$311.0	$ –	$ –	$ –	$ –
United States Dollars	52.2	65.4	22.1	28.4	3.1	3.7
European Units of Account	.8	1.8	1.1	2.4	34.6	38.3
Japanese Yen	11.3	13.9	11.3	13.9	11.3	14.3
Deutsche Marks	–	–	67.6	76.2	–	–
	$319.0	$392.1	$102.1	$120.9	$ 49.0	$ 56.3

OPERATING FUND ASSETS AND LIABILITIES

Guaranteed Public Debt

The summary of guaranteed public debt and other data pertaining thereto is as follows (*in millions of dollars*):

Guaranteed public debt, net of sinking funds:

	March 31		Increase
	1983	1982	(Decrease)
Securities guaranteed	$ 1,887.1	$2,043.6	$ (156.5)
Less, sinking funds	223.4	221.8	1.6
	$ 1,663.7	$ 1,821.8	$ (158.1)

The net decrease in guaranteed public debt of $156.5 million is accounted for as follows (*in millions of dollars*):

Refinanced by an increase in the direct debt of the Province:	
Manitoba Hydro-Electric Board	$ 116.6
Manitoba Telephone System	14.0
	130.6
Repaid mainly from Sinking Funds:	
Manitoba Hydro-Electric Board	29.9
Other	.5
	30.4
	161.0
Less, increase in guaranteed notes: Manitoba Telephone System	4.5
Net decrease	$ 156.5

The guaranteed debt is repayable in the following currencies:

	March 31		
	1983	1982	(Decrease)
Type of Currency			
Canadian dollars	$ 879.2	$ 1,031.1	$(151.9)
Foreign debt stated at exchange rates at the date the debt was incurred:			
United States Dollars	930.9	930.9	-
Swiss Francs	56.1	56.1	-
Deutsche Marks	16.9	19.9	(3.0)
Pounds Sterling	4.0	5.6	(1.6)
	1,007.9	1,012.5	(4.6)
	$ 1,887.1	$2,043.6	$(156.5)
Foreign debt calculated at exchange rates at each year end	$ 1,268.8	$ 1,279.8	$ (11.0)

OPERATING FUND ASSETS AND LIABILITIES

Guaranteed Public Debt *(Continued)*

Guaranteed foreign debt due within the next three fiscal years, comparing book value at exchange rates at March 31, 1983:

	March 31					
	1984		1985		1986	
	Book Value	Rated Value	Book Value	Rated Value	Book Value	Rated Value
Type of Currency						
Deutsche Marks	$ 3.1	$ 5.1	$ 3.1	$ 5.1	$ 3.1	$ 5.1
Pounds Sterling	1.6	1.4	1.6	1.4	.8	.7
United States Dollars	-	-	-	-	158.4	188.8
	$ 4.7	$ 6.5	$ 4.7	$ 6.5	$ 162.3	$ 194.6

Included in the guaranteed debt are amounts mostly serviced from the Consolidated Fund which are essentially the same as direct debt. These amounts consist of the following.:

	March 31		
	1983	1982	(Decrease)
Manitoba School Capital Financing Authority	$ 215.2	$ 215.2	$ -
University of Manitoba	21.2	21.3	(.1)
Brandon University	-	.1	(.1)
Various hospitals and other institutions	1.7	1.9	(.2)
	$ 238.1	$ 238.5	$ (.4)

Combined Direct and Guaranteed Public Debt

A summary of combined direct and guaranteed public debt and other data pertaining thereto is as follows (*in millions of dollars*):

Combined direct and guaranteed public debt, net of sinking funds and debentures issued under financial assistance agreements:

	March 31		Increase
	1983	1982	(Decrease)
Direct	$ 4,005.1	$ 3,193.9	$ 811.2
Guaranteed	1,887.1	2,043.6	(156.5)
	5,892.2	5,237.5	654.7
Less:			
Sinking funds:			
Direct	412.2	341.3	70.9
Guaranteed	223.4	221.8	1.6
Debentures issued under Financial Assistance Agreements (see particulars under Direct Public Debt)	29.5	-	29.5
	665.1	563.1	102.0
	$ 5,227.1	$ 4,674.4	$ 552.7

OPERATING FUND ASSETS AND LIABILITIES

Combined Direct and Guaranteed Public Debt *(Continued)*

The combined direct and guaranteed debt, net of sinking funds and debentures issued under financial assistance agreements, by sources of servicing:

	March 31		Increase
	1983	1982	(Decrease)
Serviced from			
Consolidated Fund:			
Fully re:			
General purposes	$ 1,748.2	$ 1,345.0	$ 403.2
Mainly re:			
Schools	215.2	215.2	-
Other	14.5	16.7	(2.2)
	229.7	231.9	(2.2)
Partially re:			
Manitoba Agricultural Credit Corporation	99.8	106.0	(6.2)
Manitoba Housing and Renewal Corporation	55.8	52.2	3.6
Manitoba Data Services	10.4	11.0	(.6)
	166.0	169.2	(3.2)
	2,143.9	1,746.1	397.8
Manitoba Hydro funds	2,539.9	2,428.8	111.1
Manitoba Telephone System funds	511.6	467.4	44.2
Other funds	31.7	32.1	(.4)
	$ 5,227.1	$ 4,674.4	$ 552.7

OPERATING FUND ASSETS AND LIABILITIES

Combined Direct and Guaranteed Public Debt *(Continued)*

Purpose of debt and related sinking funds:

	March 31, 1983				1982
	Debt	Sinking Fund	Financial Assistance Agreements	Net Debt	Net Debt
General government programs	$ 2,105.9	$ 328.2	$ 29.5	$ 1,748.2	$ 1,345.0
Manitoba Hydro-Electric Board	2,780.3	240.4	–	2,539.9	2,428.8
Manitoba Telephone System	559.3	47.7	–	511.6	467.4
Manitoba School Capital Financing Authority	215.2	–	–	215.2	215.2
Manitoba Agricultural Credit Corporation	99.8	–	–	99.8	106.0
Manitoba Data Services	10.4	–	–	10.4	11.0
Manitoba Housing and Renewal Corporation	59.4	3.6	–	55.8	52.2
Manitoba Water Services Board	18.3	1.2	–	17.1	17.6
Federal-Provincial loan agreements	14.6	–	–	14.6	14.5
Universities	25.9	14.5	–	11.4	13.3
Municipal, hospital and other	3.1	–	–	3.1	3.4
	3,786.3	307.4	–	3,478.9	3,329.4
Total	$ 5,892.2	$ 635.6	$ 29.5	$ 5,227.1	$ 4,674.4

Sinking Funds

A summary of sinking funds and other data pertaining thereto is as follows (*in millions of dollars*):

Sinking funds applicable to:

	March 31		
	1983	1982	Increase
Direct public debt	$ 412.2	$ 341.3	$ 70.9
Guaranteed public debt	223.4	221.8	1.6
Agencies' non-guaranteed debt	3.5	2.5	1.0
	$ 639.1	$ 565.6	$ 73.5

OPERATING FUND ASSETS AND LIABILITIES

Sinking Funds *(Continued)*

Sinking funds were invested as follows:

	March 31 1983	March 31 1982	Increase (Decrease)
Internal securities:			
Province of Manitoba	$ 79.9	$ 77.0	$ 2.9
Manitoba Hydro-Electric Board	232.6	264.5	(31.9)
Manitoba Telephone System	59.0	56.0	3.0
University of Manitoba	8.2	8.0	.2
	379.7	405.5	(25.8)
Other securities	26.9	16.4	10.5
Short-term investments	232.5	143.7	88.8
	$ 639.1	$565.6	$ 73.5

The sinking funds are maintained in accordance with legal requirements. They are basically being maintained by way of borrowing to provide funds for clearing the market of Manitoba securities, thereby placing the Province in a stronger marketing position. Manitoba securities are being purchased before maturity by the Department of Finance at prices approved by the Deputy Minister of Finance. During the fiscal year ended March 31, 1983 there was limited demand for redemption of unmatured Manitoba securities. As a result the sinking funds funding was mainly by way of working capital offsets with the Province's regular rates of interest for working capital being applied to sinking fund investments.

Commitments and Contingent Liabilities

The particulars of the more significant commitments and contingent liabilities are as follows:

Commitments

— Indebtedness to the Canada Mortgage and Housing Corporation by:

Manitoba Housing and Renewal Corporation - $237.5 million as at March 31, 1983 ($239.9 million at March 31, 1982). Under an agreement with Canada this indebtedness is serviced through operating deficits by Canada and Manitoba on an equal sharing basis. Manitoba's share of the deficit amounted to $18.7 million for the year ended March 31, 1983 ($17.6 million for March 31, 1982).

Manitoba Water Services Board - $2.8 million as at March 31, 1983 ($2.9 million as at March 31, 1982). The operations of the Manitoba Water Services Board are subsidized, the subsidy being $2.1 million for the year ended March 31, 1983 ($1.9 million for March 31, 1982).

— In accordance with legislation the Province is required to contribute on a matching basis one half of the pensions paid by the Civil Service Superannuation Fund, except for the agencies' portion, and by the Teachers' Retirement Allowances Fund. There are also provisions for adjustment payments. The matching and adjustment payments for the two fiscal years were as follows (*in millions of dollars*):

OPERATING FUND ASSETS AND LIABILITIES

Commitments (Continued)

	March 31 1983	1982	Increase
Civil Service Superannuation Fund	$ 6.5	$ 5.6	$ .9
Teachers' Retirement Allowances Fund	14.1	12.9	1.2
	$ 20.6	$ 18.5	$ 2.1

In accordance with a formula supplied by the actuary, the employer's actuarial liability of the Province for the Civil Service Superannuation Fund has been established to be $185.1 million as at December 31, 1982 ($159.6 million as at December 31, 1981). There has been no employer's actuarial liability of the Province established for the Teachers' Retirement Allowances Fund but it can be logically concluded that it would approximate the total of the employees' fund which amounted to $271.6 million as at December 31, 1982 ($229.3 million as at December 31, 1981).

The increases in the amounts of pension funds' liabilities, except for currency value fluctuations, will stabilize when the plans mature sometime beyond the year 2002. The employer's share of the pension funds is financed on a "pay-as-you-go" basis. Consistent with increases in liabilities, the employer's cash demands increase progressively until maturity of the plans.

To assist with cash management the actuary provided a cash projection for the Civil Service Superannuation Fund for 25 years, commencing with the year 1978 and concluding with the year 2002. In essence, based on a constant membership, the projection indicated the annual employer's pension payments as a percentage of salaries to be 1.5 percent in 1978 and progressively increase to 7.2 percent in 2002. As a matter of comparison, the actual amount of employer's pension payments as a percentage of salaries for the year ended December 31, 1982 was 2.0 percent (2.0 percent for 1981). The main reason for the percentage remaining the same, when normally it should have increased, is because there was a 3.5 percent increase in the number of contributors in 1982.

Such a cash projection was not obtained for the Teachers' Retirement Allowances Fund; but, because of the similarity of this Fund with the Civil Service Superannuation Fund, it can be concluded that if a projection had been obtained for the Teachers' Retirement Allowances Fund the results would have been essentially the same. The actual amount of the employer's pension payments to the Teachers' Superannuation Allowances Fund as a percentage of salaries for the year ended December 31, 1982 was 3.3 percent (3.3 percent for 1981). The higher percentage of this plan as compared with the Civil Service Superannuation plan is basically accounted for in the Teachers' Retirement Allowances plan being a significantly older plan. The main reason for the percentage remaining the same, when normally it should have increased, is because salary increases were higher than pension increases.

— Indebtedness for financing of hospitals and personal care homes:

Hospitals and personal care homes have obtained financing for capital construction by issuing debentures, or arranging for mortgages or long-term bank loans. The Hospital Capital Financing Authority, which was established in 1972, approves the issue of all securities to finance these capital expenditures and assists in obtaining an orderly market for the sale of the securities. The Manitoba Health Services Commission has arranged with hospitals and personal care homes to fund the approved debt as long as the facilities are operated under The Health Services Insurance Act (Manitoba). Funds for servicing the approved debt incurred for the construction and acquisition of facilities for the provision of insured services are provided from an appropriation of the Consolidated Fund and included in the expenditure of the Manitoba Health Services Commission.

As at March 31, 1983 the approved outstanding net capital debt of hospitals and personal care homes was $221,607,000 in Canadian dollars and $12,675,000 in United States dollars. This includes $14,012,000 National Housing Act mortgages which are subsidized by the Canada Mortgage and Housing Corporation.

OPERATING FUND ASSETS AND LIABILITIES

Commitments (Continued)

In addition to the above net outstanding debt, lines of credit up to $36,830,000 have been approved to finance projects currently in process. On completion of these projects, the borrowings will be converted to long-term debt.

Contingent liabilities in addition to guaranteed debt

— Flyer Industries Limited performance guarantee of $40 million by way of an encumbrance of The Manitoba Development Corporation's borrowing authority under Part II of The Development Corporation Act.

— Guarantee of Manitoba Hydro-Electric Board notes for $100.5 million

— Bank guarantees for $2.8 million

— Guarantee of Canada Mortgage and Housing Corporation mortgages issued under the Elderly Persons Housing Act $1.1 million and issued to Brandon College Incorporated (Brandon University) $1.3 million.

Commitments for future services

The Financial Administration Act permits commitments to be made only to the extent authorized by the Legislature. The Appropriation Act, 1982 granted authority to the Government to commit expenditures not to exceed $150 million. The commitments for significant contracts and lease rentals amounted to approximately $77.0 million as at March 31, 1983.

Borrowing authority

The following is a summary of the borrowing authority (*in millions of dollars*):

	March 31		Increase
	1983	1982	(Decrease)
Appropriation Acts - general government programs	$ 87.6	$ 93.6	$ (6.0)
Loan Acts - self-sustaining programs	326.4	274.2	52.2
Total unabated authority	414.0	367.8	46.2
Encumbered authority	40.0	39.5	.5
	$ 374.0	$ 328.3	$ 45.7

More detailed information concerning the borrowing authority is included in the Public Accounts.

TRUST FUND ASSETS AND LIABILITIES

Administered Trust Funds

Administered trust funds consist of the following (*in millions of dollars*):

	March 31		Increase
	1983	1982	(Decrease)
Assets			
Amounts due from Operating Fund	$ 497.5	$ 313.4	$ 184.1
Cash and investments	386.3	388.6	(2.3)
	$ 883.8	$ 702.0	$ 181.8
Liabilities			
Sinking funds for securities issued by government agencies	$ 226.9	$ 224.3	$ 2.6
Funds deposited with the Minister of Finance for investment	587.4	419.7	167.7
Banking facility accounts	12.2	8.5	3.7
Operating trusts	6.0	6.1	(.1)
Reserves and other miscellaneous accounts	51.3	43.4	7.9
	$ 883.8	$ 702.0	$ 181.8

The trust transactions for each account are summarized in the Public Accounts in a statement which shows for each account the balance as at March 31, 1982, the receipts and payments for the year ended March 31, 1983 and the balance as at March 31, 1983.

The significant increase of $167.7 million in funds deposited with the Minister of Finance for investment mainly arises from: recent borrowings for utilities resulting in increased funds on hand for short term investments of $107.3 million; and, Manitoba Public Insurance Corporation increase of $43.8 million resulting from increases in retained earnings, provisions for unpaid claims and unearned premiums.

TRUST FUND ASSETS AND LIABILITIES

Custodial Trust Funds

Custodial trust funds consist of the following (*in millions of dollars*):

	March 31 1983	March 31 1982	Increase (Decrease)
Assets			
Funds in custody of the Minister of Finance and other departments	$ 615.2	$ 587.2	$ 28.0
Liabilities			
Civil Service Superannuation Fund	$ 220.0	$ 207.2	$ 12.8
Manitoba School Capital Financing Authority	212.3	214.1	(1.8)
Workers Compensation Board	123.4	121.2	2.2
The Public Trustee	43.5	28.1	15.4
Manitoba Hospital Capital Financing Authority	4.9	5.2	(.3)
Other	11.1	11.4	(.3)
	$ 615.2	$ 587.2	$ 28.0

The increases in the custodial trust funds mainly arise from normal growth fluctuations, except for a more significant increase in the Public Trustee trust funds resulting from an increase in the number of estates being administered.

REVENUE AND EXPENDITURE

The accounting policies with regard to the presentation of revenue and expenditure for the year ended March 31, 1983 are stated in the Public Accounts and are reproduced in Exhibit 12 of the report. The policies are consistent with those of the previous year.

A summary statement of revenue and expenditure is included in the Public Accounts and is reproduced in this report in Exhibit 9. The statement compares the actual revenue and expenditure for the year ended March 31, 1983 with the Estimates for that year and also with the actual amounts for the preceding year.

The excess of expenditure over revenue for the year ended March 31, 1983 as reflected in the aforementioned statement amounted to $434.7 million and was $91.1 million more than the estimated amount of $343.6 million. This variance is accounted for by a decrease in revenue over the estimate of $86.3 million and an increase in expenditure of $4.8 million over the estimate.

The Department of Finance provides explanations in the Public Accounts for significant revenue variances, as compared with the Estimates and with the previous year; variance explanations for expenditure are only provided as compared with those of the previous year. A comparative statement of departmental expenditure by object code with variance explanations is also provided in Public Accounts. We have reviewed these variance explanations and found them to be appropriate.

The Public Accounts include a subsidiary schedule entitled "Statement of Acquisition and Construction of Physical Assets". In previous years this schedule has included some items of a non-capital nature in error. The Department of Finance has undertaken an extensive review of this matter and established a clarified definition for this category of expenditure. The clarified definition is included in the Public Accounts for the fiscal year ended March 31, 1983 and reproduced in this report in Exhibit 12. The definition now includes expenditure for repayment of the capital portion of debt relating to hospitals, schools and housing, and grants and assistance payments, or portions thereof, to commercial organizations and private individuals for the purchase, construction or improvement of physical assets. The schedule in the Public Accounts for the fiscal year ended March 31, 1983 has been prepared on this basis and has been reviewed by my Office.

SPECIAL WARRANTS

A summary of the special warrants issued by departments on a comparative basis for the 1983 and 1982 fiscal years is included in Exhibit 6 of this report. The total amount of special warrants issued for the year ended March 31, 1983 of $44.0 million was less than the total amount issued for the year ended March 31, 1982 of $105.5 million by $61.5 million.

Special warrants are issued under the authority of section 42(1) of The Financial Administration Act to approve expenditure not foreseen or provided for, or insufficiently provided for, and is urgently and immediately required for the public good. We review the documentation supporting requests for special warrants to see that it is in compliance with legislation.

As can be noted from amounts shown in Exhibit 6, two departments required substantial approvals during the fiscal year ended March 31, 1983. Special warrants were issued for the Department of Community Services and Corrections amounting to $14.5 million, mainly to cover under-provided for social allowance expenditure resulting from adverse economic conditions, and for the Department of Finance amounting to $6.1 million, mainly to cover under-provided for tax credit payments also related to economic conditions.

The additional expenditure for the year ended March 31, 1983 approved by special warrants was more than offset by under-expenditure of amounts authorized by legislation. The total actual expenditure for the year ended March 31, 1983 of $2,843.6 million was less than the total approved by legislation under the Main Supply, Supplementary Supply and Statutory Authority by $31.2 million.

I had previously indicated in my reports a concern that when the budget is presented and the expenditure estimate is not updated at that time, the estimated "bottom line" position could be misstated. Our review of operations for the past ten years does not support this concern. In any event, the expenditure estimate would have to be updated and the "bottom line" restated when the next quarterly report is issued.

GOVERNMENT'S CENTRAL MANAGEMENT SYSTEM

General Comments

As indicated in my previous reports, the responsibility for the Government's central management system has been mainly assigned to the Treasury Board, the Department of Finance and the Civil Service Commission.

Also as indicated in my previous reports, Treasury Board has over the past several years been enunciating and defining the Government's central management system. In my previous reports we have provided an outline of the system which has been prescribed. Although the overall direction of the system still requires refinement and the implementation of it is far from complete, we feel that the system has all the necessary elements for effective management.

Our assessment is based on a number of criteria, including a recent pronouncement by the Office of Management and Budget of the Federal Government in the United States, and comments by Clarence L. Barber, Professor of Economics of the University of Manitoba, in a recent report requested by the Treasury Board.

The recent pronouncement of the Office of Management and Budget effectively summarized the characteristics of a quality management system. In considering management reforms of the Government of the United States, the Office of Management and Budget reviewed management systems in the private and public sectors. It considered the following to be among the characteristics of a quality management system:

- A clear planning and goal-setting process
- A budget system tied into the planning process
- An accurate, integrated financial system
- A compatible communication and reporting system
- An incentive-oriented personnel process
- An effective results analysis and audit process

We have compared Manitoba's prescribed system with the aforementioned criteria and find that it meets these requirements.

Professor Clarence L. Barber, in a report prepared for the Government of Manitoba which was released in May 1983, concluded that the financial management system essentially meets the needs of the Province. He also recommended that an economic management system be maintained and the pertinent data be included in the budget. This dimension of management and accountability deals with the assessment of the Province's economic strength and the manageability of the amount of the public debt. It is an area of concern for which data should be systematically organized and provided. During the discussion of the report in the Public Accounts Committee I was asked if my Office could carry out an audit of this data. My response was that my Office did not have the kind of expertise required for economic evaluations in order to assess the manageability of the public debt. However, on further reflection, if a system was established with appropriate criteria my Office could audit the system in the same way as we now audit the revenue estimate system to substantiate the propriety of variance explanation. My Office's involvement in this system has been a positive force in the formalization of the system, where necessary, and the introduction of added discipline resulting in a more effective estimating and accountability system.

Even though the basic prescription of the Government's central management system is now reasonably complete, as mentioned previously, more refinement in direction is still required and the full implementation of it by departments has a long way to go as yet. It is important to proceed as expeditiously as possible. As I indicated in my previous reports, substantial savings can still be realized through a more effective management and accountability of public expenditures. Comments concerning specific areas of improvements are included under the headings of Department of Finance on those matters within its responsibilities and under the Civil Service Commission in its area of responsibilities. Although the comments concerning improvements are being made under the headings of the Department of Finance and the Civil Service Commision because of their central management responsibilities, the line departments are mainly responsible for implementing the improvements.

Department of Finance

Planning

Last year we indicated that the Manitoba Government was setting upper limits on resource allocation for the various departments based on an informal fiscal plan. This requires the departments to plan realistically and make hard choices among options available in order to maximize the benefits from the use of their available resources. During the

GOVERNMENT'S CENTRAL MANAGEMENT SYSTEM

Planning (Continued)

year under review the Minister of Finance has taken steps in this direction by meeting with officials of departments, government funded organizations and other interested parties. Although this system is sound and consistent with prudent financial management, in our view considerable improvements can still be made in the refinement of these operations. Furthermore, we also again recommend that Manitoba's fiscal plan be formalized and publicly stated so that the rationalization behind the allocation of resources is broadly known and understood. This is particularly important since virtually all slack in the availability of limited resources has disappeared, and the economic activities of the private sector are so closely related to government expenditure plans.

The guidelines issued by Treasury Board last year regarding the approved approach to planning have been followed up with the departments. A seminar was held in January, 1983 for Deputy Ministers entitled "Planning Requirements in the Manitoba Government". The planning guidelines deal with planning in a comprehensive manner. They cover the aspects necessary to carry out planning in an effective manner: strategic planning, multi-year planning, resource allocation and operational planning. Departments were requested to assess their planning processes, designate areas where improvements were considered necessary, and identify the time frame for making the required improvements. The results of these reviews were forwarded to the Department of Finance after completion.

The material developed by the departments was reviewed by staff of the Department of Finance which provides support services for Treasury Board. My staff reviewed certain of the material prepared by the departments and the summary material prepared by Department of Finance staff for Treasury Board. As might be expected with any new undertaking of a complex nature, the material developed by departments on their planning processes, and the improvements required, disclosed a wide variety of approaches to and understanding of planning concepts and practices. The material submitted by departments ranged from clearly demonstrating an excellent framework for a complete planning process, including the relationship between planning and the budget process, to a limited understanding only. Within this range, certain departments were focusing more on the strategic planning while others on operational planning.

We consider that this was an extremely useful approach. Treasury Board has directed that the Department of Finance work with the Civil Service Commission to ensure that adequate training arrangements are made so that upgrading departmental planning processes is continued. Staff of the Department of Finance was also directed to follow up with those departments whose timetables were incomplete. It also indicated that the more effective planning processes of certain departments be used as a guide to assist the other departments in the improvements of their processes. We will be following up and reporting the progress being made by departments in refining their planning processes as a logical basis for progressive improvements in overall management systems consistent with the steps outlined under the General Comments of this section.

Annual Budget

The annual budget includes the estimates of revenue, expenditure and the deficit for the year.

In my last year's report I expressed a concern about the expenditure estimates not being up-to-date based on the best known position at the time the budget is presented resulting in uncertainty as to the bottom line position. A further review of the budgets for a number of preceding years disclosed that the amounts of the expenditure estimates included in the budgets were reasonably complete and there was no need for concern.

Legislative Expenditure Estimates

The main expenditure estimates do not necessarily provide approval for all expenditure for a fiscal year. Because the main expenditure estimates of necessity must be prepared so much in advance of the fiscal year, supplementary estimates are generally submitted for additional approval. Supplementary estimates have been approved in nine out of the last ten years, ranging from .01 to 6.35 percent of the total of the main estimates. The main estimates are presented on a comparative basis with the approved expenditure for the preceding fiscal year, which includes the supplementary estimates. In considering the estimates on a comparative basis, the difference in the timing at which the estimates were established must be kept in mind. A statement in the main estimates on the difference in timing and the

GOVERNMENT'S CENTRAL MANAGEMENT SYSTEM

Legislative Expenditure Estimates

(Continued)

possible implication, if any, of it would be helpful in the evaluation process.

Departmental Expenditure Estimates

These documents are submitted by departments to the central management system as supplementary information in support of the expenditures being requested to be approved by the Legislature. A substantial amount of information included in these departmental documents is made available to the Committee of Supply in response to questions raised during consideration of the departmental estimates. In order to provide information for the consideration of the estimates in a more effective manner, four departments submitted supplementary data pertaining to the 1983-84 expenditure estimates to the Committee of Supply prior to their estimates being considered. We believe that this is a progressive step for improving the legislative approving process and should be expanded to cover all departments.

These departmental expenditure estimate documents are important internal documents used in the internal control and accountability process. The actual expenditures are compared with the estimates and variance explanations are provided. We feel that significant further benefits could be realized if all departments submitted supplementary data to the Committee of Supply prior to their estimates being considered and also included this data as part of the accountability data in the departmental annual reports as commented on under the heading of departmental annual reports.

Public Accounts

In my last year's report we indicated that the section in the Public Accounts dealing with departmental accountability, consisting of in excess of 100 pages annually, is ineffective. The information supplied does not provide any basis for evaluation since there are no comparisons with estimates or with previous year's actual expenditure. Therefore, it cannot be determined what significant changes, if any, have taken place, or why such changes have occurred. We recommended that this information be transferred from the Public Accounts to the departmental annual reports as part of departmental accountability to the Legislature. The Department of Finance has continued to include this information in the Public Accounts in the same way as in previous years, except in volume II instead of volume I of the Public Accounts.

Although the information in its present form has limited usefulness, until it is included in the departmental reports it should remain in the Public Accounts. As indicated under the Departmental Annual Reports section a directive has been issued by the Premier's Office for accountability requirements in the departmental reports. When this directive is complied with, it will no longer be necessary to include the aforementioned information in the Public Accounts.

Departmental Annual Reports

In my last year's report we indicated that a directive was issued by the Premier's Office requiring the annual reports to be standardized with their primary purpose being to provide an accountability based on the approved Estimates for the activities and programs of the departments for the year. There was general compliance with the prescribed format of the reports but there generally was only a very limited compliance as yet with the accountability requirement based on the approved Estimates. As stated in my previous reports to the Legislature, if these departmental documents are to be a part of an effective accountability system, it is most essential that they provide a comparison of the actual expenditure with the planned expenditure, as provided for in the Estimates, and appropriate variance explanations. In my view the aforementioned directive prescribed one of the essential elements of an effective accountability process. During the course of our departmental audits we will be checking on compliance with this directive and will be commenting on any problems which may be observed.

Department of Finance Annual Financial Report

Last year in my report we recommended that the financial annual report could be improved by showing more information on a comparative basis with explanations for changes. We were told that modifications to the report are not being planned at this time. It is recommended that our suggestion for improvement be given further consideration.

GOVERNMENT'S CENTRAL MANAGEMENT SYSTEM

Quarterly Financial Report

Although the quarterly financial report publicly provides essential financial information on a timely basis, effective improvements can still be made in it. During discussion at last year's Public Accounts Committee meetings the Minister of Finance stated that he was considering showing the appropriation funds which were expected to lapse and providing improved revenue and expenditure variance explanations. These matters are under consideration for inclusion in the second quarterly report for the period ended September 30, 1983.

Monthly Financial Statements

Last year I reported that the Department of Finance was making refinements to the monthly financial statements and the financial reports by responsibility centres on a progressive basis to reduce the manual effort and to improve their usefulness in the managing process. The Department was unable to make any improvements in this area during the current year due to a shortage of staff resources and the need for attention to other matters of higher priority, such as analysis for expenditure control measures. The Department's Branch which is responsible for this area has recently been reorganized and additional staff resources have been provided. It is planned that the necessary refinements will be given more attention during the next year.

Manuals

Government administrative policies and procedures are communicated to departments and agencies by way of manuals and directives. This responsibility is mainly carried out by the Department of Finance and the Civil Service Commission.

During the year under review the Department of Finance has continued revising and updating the various manuals for which it is responsible. An internal audit guide was developed and released. The Department of Finance is presently developing further new material for the financial administration manual as well as developing a payroll procedures manual to be co-ordinated with the implementation of the new payroll system scheduled for early 1984. The Civil Service Commission has continued with the revising and updating of personnel policies and procedures manuals and directives. The Civil Service Commission is presently revising its personnel system's manuals so that they will be co-ordinated with the new payroll system being implemented early in 1984. Steps are being taken to improve the communication of the Government's policies and procedures to the departments and agencies.

Internal audit function

In January 1981 Treasury Board approved the following internal audit policy:

> "Departments shall have an independent internal audit function that carries out a systematic review and appraisal of all departmental operations for purposes of advising management as to the efficiency, economy and effectiveness of internal management policies, practices and controls."

Last year I reported that the Comptroller's Division of the Department of Finance has been working with line departments to assist them in developing or improving their internal audit functions and that Treasury Board approved a contract with a consulting firm to carry out an internal audit in the Department of Government Services as a pilot project. The internal audit by the consultants was carried out in conjunction with personnel from the Departments of Government Services and Finance. This project involved a complete survey of the Department of Government Services and an audit of one branch of the Department selected on the basis of the results of the survey. The matters raised during the internal audit of this branch are being addressed by officials of the Department of Government Services.

The internal audit methodology is in the process of being developed by the Department of Finance based on the experience gained during the pilot audit and a review of the theory and practices in other federal and provincial jurisdictions. Further developments and guidance pertaining to methodology is expected to be released as an internal audit policy guideline later in 1983-84.

The Department of Finance has developed and issued an internal audit guide in December 1982. The guide is based on a series of releases of which three have been issued to-date. A release concerning internal audit methodology will be made as referred to in the preceding paragraph.

The Treasury Board has recently approved additional internal audit staffing and funding at a

GOVERNMENT'S CENTRAL MANAGEMENT SYSTEM

Internal audit function (Continued)

senior level for six major departments conditional on these departments meeting the necessary criteria for the effective establishment of internal audit functions.

I am pleased with the direction and support that Treasury Board has given and is giving to the internal audit function for departments. We are monitoring the progress that departments are making in either establishing or improving their internal audit function as an effective management mechanism. This issue is commented on further from a departmental perspective in the Departments and Agencies Operations section of this report.

Grant accountability

Grant accountability in accordance with centrally prescribed requirements is the responsibility of departments making the grants. The centrally prescribed requirements provide for effective accountability except for a lack of appropriate specific particulars in orders-in-council approving the grants as commented on in the past several years.

There has been no change in the way the orders-in-council are being issued but departments are now generally providing specific directions which are included with grant payments. Therefore, the inclusion of specific particulars in orders-in-council is not necessary. Where considered necessary, comments are being made in this report under specific departments concerning grant accountability pertaining to their areas of responsibility.

Payroll system

Last year we reported that a software package had been acquired to upgrade the payroll system and the Department of Finance was proceeding with the implementation of it. We also indicated that it was planned that the system will become operational in January 1984. There has been a minor delay and it is now planned that the system will become operational during the period February - March 1984. In the meantime our audit indicates that the present system is sufficiently stable to meet the immediate needs of the Province.

Information management

In my report last year we reported that the Information Management Division had been established and outlined its mandate. The Division is still in the process of organizing and staffing to carry out its mandate. All three of the Division's directors have now been appointed, two only recently, and the Division now has most of its approved staff complement in place. My Office has continued to be involved in the formative stages of the Division and we have been working with staff of the Division on matters of mutual concern. Even though the Division is not fully operational, there have already been benefits since its establishment. One of the projects the Division has undertaken is the development of appropriate policy and procedures for a government-wide computer processing disaster recovery plan. This is considered to be vital when so many of the government's systems affecting the public in Manitoba are currently dependent on computer processing. We will continue to monitor the progress in the development of the operations of the Division.

Interest paid to the Manitoba Development Corporation on funds on deposit with the Minister of Finance

I expressed my concern to the Minister of Finance last year regarding these interest payments by reporting as follows:

"In my report on the financial statements of the Manitoba Development Corporation for the fiscal year ended March 31, 1982 I included the following qualification:

> 'The net income before the provision for doubtful accounts and potential losses shown on the Statement of Operations in the amount of $3.0 million includes $1.9 million of interest paid by the Province from its Appropriation on term deposits of $12.3 million as at March 31, 1982. These excess funds offset non-interest bearing share capital funded by the Province.'

Since the aforementioned excess funds result from equity financing by the Province for which the Province incurs a financing expenditure in its Appropriation, it is questionable whether interest should be allowed to the Corporation on these excess funds. This procedure results in a duplication of expenditure in the Province's financing Appropriation. The

GOVERNMENT'S CENTRAL MANAGEMENT SYSTEM

Interest paid to the Manitoba Development Corporation on funds on deposit with the Minister of Finance (Continued)

Corporation used the interest income to reduce its accumulated deficit and to pay a subsidy to the Communities Economic Development Fund of $.8 million. It is recommended that, if the Government's policy is to leave these excess funds with the Corporation as a continuing authority for possible future expansion in lending activity, interest not be paid to the Corporation on these excess funds because the Province bears the cost of financing the share capital investment in the Corporation. It is further recommended that subsidies to the Communities Economic Development Fund be provided for and funded from the Province's Appropriations as has been done in the past."

The Minister of Finance advised me by letter, dated April 20, 1983, that he had requested the Department of Crown Investments to review the capitalization of the Manitoba Development Corporation and advise him whether or not it is over capitalized in relation to its operating requirements. The review requested by the Minister has not been completed as yet.

The situation for the fiscal year ended March 31, 1983 remained unchanged. The Manitoba Development Corporation reported interest income of $1.8 million from the Province and paid a subsidy of $1.0 million to the Communities Economic Development Fund. The Province is continuing to pay interest on these funds pending the outcome of the aforementioned review.

Civil Service Commission

Managerial resources

In last year's report, I indicated that the Commission, with the approval of Treasury Board, was developing a comprehensive managerial resources management plan. The development and implementation of the plan was being carried out in two sections.

The section of the plan dealing with managerial classification and compensation is not now being proceeded with even though it was initiated to meet a recognized need. Consequently, inequities which this section of the plan was to address remain.

As we indicated last year, we have two concerns regarding compensation under the present plan for employees in the excluded categories. The first is that the part of the plan which was completed concerning the review and evaluation of managerial classifications, identified a number of significant inequities. These continue to exist. Secondly, the differential between pay plans in some of the other organizations funded by the Province, and those in Government has increased. Thus the amount by which the pay of senior administrators in these entities exceeds those in Government has increased in some cases. While the Government had undertaken a study of the discrepancies, the study was incomplete, and no work is currently being done on this issue.

As we indicated last year, these matters will have to be attended to if in the long term serious difficulties in the Province's administration are to be avoided.

The other section of the plan is concerned with managerial inventory, performance evaluation and managerial training.

The issue of managerial inventory is part of a longer range objective. Successful implementation of this inventory depends, at least in part, on the completion of the first section of the managerial resources management plan referred to above.

With respect to the adoption of effective performance evaluation systems, action was not taken as expeditiously as we had hoped. However, current plans of the Commission call for printing and distribution of the related policies and procedures by March, 1984.

Considerable progress has been made on the managerial training aspect with the introduction of a number of seminars covering various aspects of management practices. An on-going liaison with the Department of Finance is being maintained so that the Commission can keep itself informed of pronouncements on desirable management practices.

We appreciate the difficulties associated with the development and implementation of a comprehensive managerial resources management system. However, because of its importance, it should be refined and functioning at a satisfactory level as soon as is practically possible. To repeat what I said in my

GOVERNMENT'S CENTRAL MANAGEMENT SYSTEM

Managerial resources (Continued)

previous reports, this system's level of effectiveness is even more important than that of the management information system. Satisfactory administration can be carried on with good managers even when the management information system is below standard; the same thing cannot be said for a reverse situation. The quality of the Province's administration is highly dependent on a successfully functioning comprehensive managerial resources management system.

Personnel system

In my last year's report, we indicated that the departments' personnel staffs were not utilizing most of the reports generated by the personnel system, since they felt the reports did not provide the necessary information on a timely basis. Although this situation continues, some improvements have been made. Plans call for resolving the critical systems problems by the end of March, 1985. These plans have incorporated the suggestions received from departments and data received from a number of projects referred to in my last year's report. During a review of personnel systems made by my Office this year, we identified a number of specific concerns, and ascertained that the Commission's plans included their resolution. These concerns included such issues as effective project management capability, adequate corrective facility, sychronization of the payroll and personnel data bases, and other similar matters. We hope that there will be no further delays in implementing the required changes, since these deficiencies have for several years prevented the Province's personnel system from providing a more effective service.

DEPARTMENTS AND AGENCIES OPERATIONS

Department of Attorney General

Provincial Judges Court - Public Safety Building

In my reports to the Legislature for the past several years we indicated that actions at the Provincial Judges Court - Public Safety Building, concerning parking violations and other offences were considerably in arrears. As at April , 1983 approximately 41,000 parking cases (44,000 as of April, 1982) had not gone to court as yet. Also, approximately 2,200 adjudicated cases as of April, 1983, (7,750 as of April, 1982) which were processed through the courts, did not have the required driver's licence suspension notices or warrants of commital issued.

There has been a substantial improvement in the processing of adjudicated cases and officials expect the remaining backlog to be eliminated during the current year. The proclamation of an act to amend The Summary Convictions Act on January 10, 1983 introduced new procedures for the handling of parking violations which eliminate the necessity of court processing for most cases. The City of Winnipeg sends overdue parking violations directly to the Registrar of Motor Vehicles for further processing in accordance with the provisions of Section 11(3) of The Summary Convictions Act. Court staff are directing their attention to the backlog of parking cases accumulated prior to proclamation of the amended Act and expect it to be resolved during the current year.

Department of Community Services and Corrections

We have brought audit observations concerning deficiencies in the comptrollership and internal audit functions of the Department to the attention of the Minister and senior departmental officials previously. While some action has been taken to resolve our concerns, the situation has not been acted upon as timely or as effectively as expected.

We have recommended that the Department review its present organizational structure and policies as to the role, delegated authority, responsibility and procedures with regard to the Department's comptrollership and internal audit functions. We have also recommended that the Department's internal audit function be expanded to review all departmental programs, as a complementary monitoring and control function, in the same manner as the Social Allowance program which is now being effectively reviewed through an internal audit process.

We have made these recommendations as a result of numerous audit observations concerning opportunities for improving management control and accountability over departmental operations generally.

The following audit observations demonstrate the need for a strengthened comptrollership function and an expanded internal audit function.

— Program managers have the authority and responsibility to handle all aspects of their operating requirements. However, certain programs do not have staff with the required financial, accounting and information management background to be able to meet their existing responsibilities. Although internal support groups exist that do have such expertise, the utilization or availability of them is not automatic and is based substantially on the self-initiation by the program management. On this basis, deficiencies can and do remain unidentified until operating problems are experienced.

— Delegation of internal signing authority within the Department is on an informal basis and there is no appropriate procedure to either communicate or evaluate the appointments. The quality of internal control that can be achieved through a properly organized division of duties will contribute significantly towards reducing risks in those situations which warrant secondary checks or special initiation procedures.

— A change in the operational direction of the Seven Oaks Centre for Youth in 1979-80 resulted in a significant disruption of the proper administrative practises that would normally be expected. Although some positive measures were taken in 1980-81 to address our general concerns, there remain several matters that require further attention. Personnel selection procedures were handled on an informal basis to meet the short-staffing crisis being experienced. Desirable personnel documentation standards were not adhered to and appropriate participation of the Department's central Personnel Services Office was largely not in place. In addition, certain payroll records were not being adequately maintained due to the absence of procedural instructions and deficiencies within the system itself. The documentation of expenditures out of the petty cash fund was

Department of Community Services and Corrections *(Continued)*

found to be inadequate given the expanded program purpose served by the fund. Our more recent audit did not indicate any deliberate improprieties in either the personnel/payroll area or the use of petty cash funds; rather, it did indicate systems deficiencies and inadequate monitoring of the Centre's operations. There is considerable indication that management of the Centre had to react to changes as they occurred rather than there being sufficient planning and direction taking place in anticipation of the changes. As a result, aspects of control and accountability deteriorated over a period of time without being appropriately identified and resolved.

— Our audit has indicated that the financial and administrative controls within the Child and Family Services program are in need of immediate attention. The areas where systems and procedures improvements are considered to be required are widespread. This situation has arisen and been allowed to continue because of the absence of appropriate direction and monitoring being provided for this program.

— Clients under Orders of Supervision who reside outside of an institutional setting may require their banking transactions to be co-signed by Departmental field staff. We have on several previous occasions expressed our concern that such trust funds are not being adequately monitored by the Department. Based on our earlier recommendations, procedural instructions have been issued to staff, however, there is indication that the required procedures are not being followed.

It is recommended that appropriate steps be taken to improve the comptrollership and internal audit functions in order to best ensure that proper controls have been considered and implemented and that such controls are fully operational. This is essential for more effective operations.

Department of Education

Financing of school divisions

In my report last year I recommended that consideration be given to accelerating the payments made to school divisions prior to April 1 in each year in order to provide the working capital required for the period January to March, thereby avoiding interest costs related to financing operations for this period by way of bank loans. To date no action has been taken on this recommendation. The Province's share of school costs for the period January 1, 1983 to March 31, 1983, which the Province budgeted for in its fiscal year ending March 31, 1984 and paid in April 1983, was estimated to amount to approximately $72 million ($66 million for the preceding year). This deferment of costs into the subsequent fiscal year is also commented on in the Assets and Liabilities section of this report with a recommendation for improvement.

In my last year's report I indicated that as a result of changes by the Province in financing school divisions, interest costs decreased in 1981 with a further decrease being expected in 1982 when the full effects of the changes implemented in 1981 were realized. There was a substantial decrease of $2.8 million in interest costs in 1982 (from $7.7 million in 1981 to $4.9 million in 1982). Not all of this decrease is accounted for by the accelerated cash flow. Some of it applies to a significant decrease in interest rates paid by school divisions from an average of 19.4 percent in 1981 to an average of 16.0 percent in 1982.

In my previous reports I recommended that changes in the regulations be made to provide for more timely payments by municipalities. There have been no changes made as yet to the regulations. Most of the taxpayers pay their school taxes to the municipalities on a timely basis and the municipalities invest these funds for their own benefit while the school divisions pay higher rates of interest to the banks to finance their expenditures. I again recommend that appropriate changes be made to the regulations concerning municipal payments to school divisions so that savings can be realized for the benefit of taxpayers.

Accountability for grants to schools

In my report last year, I indicated that the Department was in the process of testing a new standardized program budgeting, accounting and reporting system in several selected school divisions. These tests proved to be very successful. As a result the new system with refinements has now been fully implemented in all but seven school divisions and these divisions are in the process of implementing it. During the year the Department held several meetings with the auditors of school divisions to familiarize them with the new system. The Department has also issued appropriate manuals to school division officials and auditors and is providing direction and assistance to ensure that the system functions at a

Accountability for grants to schools

(Continued)

satisfactory level in the operation of the divisions. My Office will continue to monitor the effectiveness of the system.

I also indicated in my report last year that guidelines concerning the broader audit reporting requirements of the new Public Schools Act had been further clarified. The auditors of the school divisions are continuing to issue supplementary audit reports in compliance with the reporting requirements of Section 41(12) of the Public Schools Act. Since this is the second year that these supplementary audit reports have been received, the Department is planning to do a comprehensive analysis and comparison of them to determine the types of problems being raised and the action being taken to respond to the problems. A review of the supplementary reports by my Office indicates that the auditors are providing valuable assistance with the improvement of controls and accountability of the school divisions. I am pleased with the progress which is being made to ensure a continuance of good quality administration.

Department of Municipal Affairs

Accountability for grants to municipalities

In my report last year I indicated that the Department of Municipal Affairs prepared draft guidelines for auditing and reporting requirements and the systems of control to be maintained by municipalities in order to comply with satisfactory standards of accountability. These draft guidelines were referred to the Union of Manitoba Municipalities, the Manitoba Association of Urban Municipalities and the Manitoba Municipal Secretary-Treasurer's Assocation with the view to finalization and the issuance of formal operational guidelines. Formal guidelines have not been issued as yet. However, the draft guidelines have already had an impact on operational control and accountability. Our review of the supplementary reports issued by the auditors in compliance with the Municipal Act indicated a more comprehensive interaction between the auditors and officials concerning operational control and accountability. We discussed this progress at the municipal auditors meeting in September, 1983. We agreed at the meeting that it would be most beneficial if matters noted in the supplementary audit reports, of a kind which are of general application, be communicated in a general way on a broad basis. The Director of Municipal Budgets and Finance, a small committee of municipal auditors and my Office are exploring the practicability of assembling the information and circulating it by way of a bulletin to municipal auditors. I am pleased with the progress which is being made in this area and am hopeful that the draft guidelines will be formalized in due course.

In the past year the Technical and Research Committee of the Institute of Chartered Accountants of Manitoba became involved with the supplementary audit report requirements and has been consulting with me and my officials in that regard. The Committee issued a report in July 1983 which is helpful to the auditors. The Committee's assistance is most appreciated.

The Department of Municipal Affairs has developed a policy and procedures manual for municipal administration. This manual will be an extremely useful communication mechanism for municipal officials and auditors.

I believe that the aforementioned constructive action, when combined with similar and coordinated action concerning school and hospital operations, is a very positive force in maintaining good quality administration.

Channel Area Loggers Ltd.

I indicated in my report last year that there was a significant improvement in operations for 1981-82 with the loss for the year ended March 31, 1982 being $17,259, a reduction of $156,228 from the previous year's loss. There was a further significant improvement in operations during 1982-83 realizing a profit for the year ended March 31, 1983 of $38,976 as compared with a loss of $17,259 for the previous year. The Company budgeted for a loss of $77,000 for the year ended March 31, 1983 based on sales of 20,500 cords; actual sales were 18,900 cords. Even though the sales were lower than budget, the improvement in the Company's actual operations compared to budget was realized because of decreases in costs such as road maintenance of $36,000, timber dues and cullage of $20,000, supervision of $25,000 and general and administrative expenses of $20,000. The Company is anticipating a loss for the year ending March 31, 1984. However, the amount of the loss cannot be estimated as yet, since Company officials are still in the process of negotiating the selling price for the up-coming season.

Legal Aid Services Society of Manitoba

For several years the Legal Aid Services Society of Manitoba has been delaying payment of accounts at year end because of a lack of funds. The amount of the unpaid accounts at year end has been progressively increasing and amounted to about $422 thousand of legal aid billings received but unpaid and about $179 thousand operating expenses unpaid as at March 31, 1983. It is recommended that necessary funds be provided in the Province's Appropriation in the appropriate fiscal year so that such a large amount of expenditure is not being deferred to the subsequent fiscal year.

Lotteries and Gaming Licensing Board

In my report last year I stated that a Commissioner was appointed to inquire into the role and activities of private operators in lotteries in Manitoba, and more particularly to inquire into all financial dealings of the private operators insofar as they relate to lottery activities, as well as all contractual arrangements between private operators and licensed charitable organizations. The Commissioner's final report was issued in June 1983 and contained numerous recommendations on ways to improve the serious deficiencies which exist in the control over lottery and gaming operations, including the hiring of qualified accountants, auditors and trained inspectors.

I have previously reported similar concerns regarding deficiencies in administrative procedures and control capabilities of the Board. As The Private Operators in Lotteries Inquiry report was only recently issued I feel that it is too soon to comment on any action taken to implement the Commissioner's recommendations. However, we will be monitoring the progress by the Manitoba Lotteries Foundation in implementing the Commissioner's recommendations.

Lottery and gaming activities licenses by the Board have continued to grow. The Board issued 1,872 licenses for the calendar year ended December 31, 1982 (1,671 in 1981). The Province's revenue from fees amounted to $1,761,631 for the year ended March 31, 1983 ($1,232,694 for 1981-82). The gross revenue from lottery schemes regulated by the Board was in excess of $74 million in 1981. The comparable figure for 1982 is not available as yet because of a delay in the Board's record maintenance.

Manitoba Data Services Commission

Computer processing service charge

For the last two years, I reported that the agreed basis of billings by Manitoba Data Services for use of its computer facilities by the Manitoba Health Services Commission (M.H.S.C.) resulted in a significant under-billing to the M.H.S.C. Effective April 1, 1983, a new two-year agreement took effect. This will result in usage charges to the M.H.S.C. being substantially more in line with M.D.S. standard rates for the first year and it is expected that by the second year of the agreement a charge rate equivalent to standard rates will be achieved.

Manitoba Development Corporation - Subsidiary and Investment Under Part II of the Act

Flyer Industries Limited

In my report to the Legislature for the fiscal year ended March 31, 1980, I indicated that the Corporation was experiencing significant operational difficulties. This accounted for the losses which the Corporation was sustaining with the loss for its fiscal year ended December 31, 1979 being $4.5 million. I also stated in my 1980 report to the Legislature that in 1980 the Corporation had made significant improvements in its operational management. As a result, the Corporation stabilized its operations with profits of $1.0 million and $2.6 million being realized for its fiscal years ended December 31, 1980 and 1981 respectively.

In December 1982 I was informed that management difficulties were being encountered by the Corporation in its operations and asked that my Office carry out a review. Our review disclosed that the Corporation was experiencing significant difficulties mainly as a result of product changes and substantially expanded operations beyond its capabilities to manage such changes and expansion. Because of production difficulties the operations became destabilized with excessive buildup of production materiel inventory, deterioration in management control and reporting procedures and significant senior management turnover. As a result of the aforementioned difficulties the Corporation sustained a loss for its fiscal year ended December 31, 1982 of $3.4 million.

Flyer Industries Limited (Continued)

Action has been taken to stabilize the Corporation's operations. Management's performance capabilities have been re-assessed and are being strengthened, and critical operational and administrative functions are also being given special attention. There are indications that a turn around is materializing but not until 1984; a significant loss for the fiscal year ending December 31, 1983 of up to that of the preceding fiscal year is being anticipated. I am encouraged by the recent actions which have been and are being taken. We will be reviewing the progress in improvements in due course.

A. E. McKenzie Co. Ltd. and Subsidiaries

In my 1980 report I commented on a $1.1 million write-down of inventory and prepaid expenses during the Corporation's fiscal year ended October 31, 1979 resulting from previous overstatements in the valuation of these assets; the reported loss for that fiscal year was $2.4 million. In my 1981 report I indicated that there was a further downward adjustment to the valuation of the aforementioned assets which largely accounted for the loss of $1.6 million for the fiscal year ended October 31, 1980. I also indicated in my aforementioned reports to the Legislature that despite the significant losses mainly arising from prior adjustments, the Corporation's operations appeared to be viable. In my 1982 report I referred to the reported profit of $67.5 thousand for the fiscal year ended October 31, 1981 and commented that the Corporation continued to be viable without any direct subsidy from the Province. I also expressed a concern in my 1982 report that through refinements of inventory valuations the ratio of overhead cost to direct inventory cost was increasing and stated that special monitoring should be maintained to ensure that the value of the inventory is not overstated.

Our overview audit of the Corporation's operation for the fiscal year ended October 31, 1982, for which a loss of $268.0 thousand was reported, disclosed that instead of reducing the overhead cost in the inventory, there was an increase of $273.9 thousand. Furthermore, there was also an increase in deferred expenses of $171.0 thousand consisting of photography and related supplies, design development and computer development. As a result of the overstatement of the valuation of the inventory and the deferred and prepaid expenses, including a lack of provision for overstocking commented on in my report covering my special audit requested by the Minister of Finance, there was an understatement of the loss for the fiscal year ended October 31, 1982 of at least $1.5 million and can be as high as $2.0 million when the evaluation is finalized. There has also been a dramatic deterioration in senior management performance. This became particularly evident during the course of my special audit which was requested on June 3, 1983 concerning conflict of interest allegations pertaining to three senior officers. The findings of the special audit are covered in a separate report. The budgeted profit of $1.6 million for the fiscal year ending October 31, 1983, which was confirmed by the former President at a meeting on May 26, 1983 of the Legislative Standing Committee on Economic Development as being realizable, will not be realized. The present management expects a break-even position on the basis of the recapitalized financial structure. There has been a serious set-back in the operations of the Corporation. The present management is in the process of stabilizing the operations. Special guidance and attention is required to ensure a continuing viability of the Corporation.

Saunders Aircraft Corporation Limited - In Receivership

In my previous reports we indicated that Saunders Aircraft Corporation Limited was placed in receivership by the Manitoba Development Corporation (M.D.C.) on May 20, 1976, and we provided a summary of cash transactions and other pertinent data from that date. The following paragraphs provide an updating of these matters.

A summary of the receipts and disbursements of the Company during the period of receivership up to May 19, 1983 is as follows:

Saunders Aircraft Corporation Limited - In Receivership (Continued)

	May 20, 1976 to May 31, 1982 (reported last year)	June 1, 1982 to May 19, 1983 (subsequent transactions)	Total
Receipts:			
Funds provided mainly for payment of liabilities and for working capital by:			
Manitoba Development Corporation	$ 351,184	$ -	$ 351,184
Province of Manitoba	176,942	-	176,942
	528,126	-	528,126
Proceeds from sale of assets	1,819,177	-	1,819,177
Collection of accounts receivable outstanding May 20, 1976	1,016,483	27,290	1,043,773
Aircraft leasing and other income	180,312	18,175	198,487
Interest income on surplus funds, net	328,011	96,561	424,572
Total receipts	3,872,109	142,026	4,014,135
Disbursements:			
Funds transferred to the Province of Manitoba	641,567	750,000	1,391,567
Payment of liabilities outstanding May 20, 1976	557,519	-	557,519
Salaries, wages and benefits	360,501	-	360,501
Insurance premiums	502,436	31,000	533,436
Receivers' fees, legal and other professional costs	456,680	31,406	488,086
Other operating costs	494,581	319	494,900
Total disbursements	3,013,284	812,725	3,826,009
Excess of receipts over disbursements	$ 858,825	$ (670,699)	188,126
Funds on hand May 20, 1976			26,173
Funds held by the receiver-manager May 19, 1983			$ 214,299

Saunders Aircraft Corporation Limited - In Receivership (Continued)

In February, 1983 the receiver-manager released $750,000 of funds held to the Province of Manitoba on condition that M.D.C. indemnify the receiver-manager against any expense, loss or damage incurred during the finalization of the receivership.

In May, 1983, the receiver-manager provided M.D.C. with an estimate of the possible further realization from the receivership to be in the amount of $330,000. This estimate includes an expected realization of an outstanding account which is being contested through the courts in Ontario. However, in view of uncertainty and materiality considerations, the amount shown as receivable in the Public Accounts as at March 31, 1983 is $50,000 only, being the previous amount of $800,000 less the receipt of the $750,000 mentioned above.

Except for the litigation pertaining to the aforementioned account, no other matters remain unresolved requiring the expertise of a professional receiver-manager. When this litigation is completed, an application will be made to the court to discharge the receiver-manager. My Office will continue to carry out an ongoing monitoring of the finalization of the receivership.

The Pas Forestry Complex - Receiver

The Receiver's activities concerning The Pas Forestry Complex have diminished significantly with only several settlements still being pursued. The Receiver has been annually preparing financial statements, which include an auditor's report issued by a firm of chartered accountants, based on a September 30th fiscal year end.

As a matter of information, a summary of the Receiver's account for the fiscal year ended September 30, 1982 is as follows:

Receipts:

Realized under settlements of actions brought by the Receiver, the Manitoba Development Corporation and the Province of Manitoba	$ 150,347
Interest income	44,963
Total receipts	195,310

Disbursements:

Funds transferred to the Province of Manitoba	134,515
Receiver's operating expenses	27,801
Total disbursements	162,316
Excess of receipts over expenditures	32,994
Funds on hand September 30, 1981	250,087
Funds on hand September 30, 1982	$ 283,081
Cash in bank and term deposits	$ 57,357
Funds on deposit with the Minister of Finance	225,724
	$ 283,081

Manitoba Forestry Resources Ltd.

In my report last year, I indicated that the Corporation's operations under the recessionary economic conditions are not being conducted on the basis of business considerations only, but included broader social objectives of the Government. One of the consequences of this approach was a buildup of inventories beyond normal business requirements. A review of operations disclosed that a substantial loss was being incurred on the conversion and sale of the Corporation's inventories of logs and work in process which were valued at cost and replacement cost. In order to avoid a deferment of significant losses, adjustments in the valuation of these inventories were recommended. The Corporation has reviewed this matter and has revised its basis of valuing these inventories to the lower of cost and net realizable value. This has resulted in a decreased valuation of these inventories as at September 30, 1981 of approximately $2.3 million. As at September 30, 1982 a similar downward adjustment of approximately $2.0 million was made. This revised basis of inventory valuation is being continued.

I also recommended that the extension of the Corporation's operations beyond commercial considerations be recognized through a subsidy by the Province to cover the Corporation's operating losses. The operations of the Corporation resulted in a loss for the year ended September 30, 1982 of $13.8 million and a further loss in excess of $20.0 million for the year ending September 30, 1983 is

Manitoba Forestry Resources Ltd. *(Continued)*

expected. I reported last year that this matter was brought to the attention of the Minister and his officials for their consideration. However, no decision has been made concerning my recommendation as yet. I again recommend that this matter be attended to. For the Province to continue to make advances to the Corporation ostensibly on the basis of an expectation of recovery is a misrepresentation of reality. It is appreciated that the Province provides an allowance for the uncollectability of these advances; but, this only confirms that these payments should be treated as subsidies which are authorized and paid from the Province's appropriations.

Manitoba Health Services Commission

Proprietary personal care homes

For several years we have been reporting that the majority of proprietary personal care homes have not been submitting audited financial statements as required by a Manitoba regulation under the Health Services Insurance Act. The Nursing Home Association of Manitoba, representing the proprietary personal care home operators, was opposed to compliance with this regulation, insisting that the operators are privately owned businesses providing services to government.

We reported last year that as a result of a meeting between the Nursing Home Association of Manitoba and the Minister of Health on this matter, a decision was made to carry out a review as to how the necessary data could be provided without the submission of audited financial statements. This review resulted in a recommendation to Cabinet of an alternate method of providing the necessary data, which will require the external auditors to provide an audit report covering certain key information, including certification of total paid hours and salary costs. We understand that Cabinet has recently approved this recommendation. These reports are to be submitted in the near future.

Accountability for payments to health care facilities

Last year we reported that guidelines concerning broader audit reporting requirements similar to those of the municipal and school division auditors had been sent out to the health care facilities' boards, officials and auditors.

During the past year, the Commission arranged several regional meetings with Board members, representatives of management and auditors of the health care facilities, to provide background explanations and answer questions concerning these guidelines. These meetings, which senior members of my staff and I attended, were very useful.

The Technical and Research Committee of the Institute of Chartered Accountants of Manitoba has reviewed broader audit reporting requirements and has sent out materials to the Institute's members to assist them in understanding these reporting requirements. The auditors of the health care facilities are issuing supplementary audit reports for the fiscal year ended March 31, 1983 to comply with these reporting requirements. These supplementary auditors' reports will contribute towards the improved operations and accountability of health care facilities.

Last year we also reported that the Commission supports the establishment of internal audit functions in the teaching hospitals, where these functions can be a vital aid in effective management, because of the size of the hospitals' operations. The hospitals have not as yet instituted internal audit functions. However, a proposal has been received by the Commission from one of the teaching hospitals for the implementation of an internal audit function. The Commission has indicated that it will continue to encourage the hospitals to proceed with the implementation of internal audit functions.

We are very pleased with the progress that the Commission has made over the past year in improving the accountability for payments to health care facilities. We will continue to monitor the progress of this matter.

Inconsistencies in hospital overhead recoveries from medical fees

For several years we have reported inconsistencies resulting in significant under-recoveries of overhead costs by teaching hospitals for medical practices of physicians employed by the University of Manitoba, practicing under the Geographical Full Time Agreement.

The Commission is working to resolve these inconsistencies. The Commission has established a

Inconsistencies in hospital overhead recoveries from medical fees (Continued)

Medical Remuneration Committee to review this and other matters involving accountability for remuneration for hospital services funded by the Commission. The Committee has been meeting regularly and has made significant progress with its reviews. It has developed principles for the recovery of overhead at the teaching hospitals from fees-for-service generated by all full-time physicians, and for Commission funding of allowances for medical administrative duties paid out of the teaching hospitals' budgets. These principles are presently under review by representatives from the administration of the teaching hospitals and from the Faculty of Medicine of the University of Manitoba.

The representatives from the administration of the teaching hospitals and from the Faculty of Medicine have been very supportive of the need to resolve these long standing issues. They have met with the Medical Remuneration Committee on several occasions to provide useful information, and have undertaken to provide direct assistance towards an equitable resolution of these matters by participation on review and advisory committees established to review the application of the aforementioned principles.

A target date of December 31, 1983 has been established for the completion of the Medical Remuneration Committee's review of the recovery of overhead costs from medical fees and Commission allowances for medical administrative duties, so that recommendations can be made to the Commission's Board for policy consideration. It is hoped that as a result of this review these matters can be satisfactorily resolved.

Manitoba Housing and Renewal Corporation

For several years we have reported that the Corporation's comptrollership function had not received the required emphasis, with the result that the financial management information system, including reporting procedures and fiscal controls, was also not at an appropriate level. Some corrective action concerning certain specific matters reported last year has been taken during the fiscal year under review; however, the basic concern regarding the comptrollership function had not been adequately addressed.

The Minister of Housing is in the process of making organizational changes within the Corporation. A new Board of Directors has been appointed with the Deputy Minister of the Department as the Chairperson. Three senior Corporation officials have been appointed to the new Board together with one of the former members. The position of Manager, Finance and Administration, has been abolished and the incumbent was laid off in August 1983. A new position of Executive Director of Support Services has been established within the Department which will add responsibilities for personnel, internal audit, legal counsel, computer and information systems functions. The new position will also include new responsibilities associated with the Rentalman's Office, the Rent Regulation Bureau and the Rent Appeals Branch resulting from the integration of these areas into the Department of Housing. The Deputy Minister has indicated that after the position of Executive Director of Support Services is filled, emphasis will be directed to resolving the concerns regarding the comptrollership function. We will be following up this matter during the course of our next audit.

The comments in the subsequent paragraphs update specific matters previously reported.

Budgeting and cash flow management practices

I indicated in my report last year that while the Corporation was continuing to develop its budgeting and reporting practices, senior officials should continue to give special attention to these matters until they are proven to be stable on a continuing basis. These matters were not given appropriate attention during the year. Certain phases of the budgeting and reporting practices require considerable improvement in order to provide meaningful information to senior management and the Board. The Deputy Minister indicated that this matter would be given special attention when the position of Executive Director of Support Services is filled.

I indicated in my report last year that the cash flow management practices were corrected in June 1982. The new system has continued to operate satisfactorily since that time.

Rural and northern housing program

The Corporation is continuing its efforts to strengthen its administrative controls concerning the collection of rental arrears and the annual income reviews. The arrears increased from $712 thousand as at March 31, 1982 to $768 thousand as at March 31, 1983, which is about the same percentage increase as the number of new housing units added during the year. Considering the recessionary economic period, the high rate of unemployment and the difficult collective environment, particularly in northern communities, it is not surprising that the arrears have not decreased. The arrears situation has been fairly carefully controlled during the last year.

The Corporation's staff has recently given greater emphasis in carrying out the annual income reviews in those communities where these reviews were significantly in arrears. Since some of these communities are not readily accessible, the amount of time and related costs in trying to carry out the income reviews and to collect arrears is extremely high. Corporation officials are faced with difficult decisions concerning enforcement of collection policies, which may result in having to take risks associated with vacant housing, while at the same time administering the program in a fair and equitable manner. These matters are being reviewed with officials from Canada Mortgage and Housing Corporation, who also carry out a similar program in the Province, with the view to establishing uniform collection and foreclosure policies and procedures. We will continue to monitor the progress of developments in this program.

Property and liability insurance

In my report last year we indicated that a savings of about $115,000 could have been realized by placing insurance for the rural public housing complexes together with the public housing complexes within the City of Winnipeg and the duplex and single unit dwellings throughout the Province. The matter was reviewed extensively by staff and the Board, including discussions with the Provincial Insurance and Risk Manager and the Minister responsible for the Corporation, before a decision was made concerning the 1983 insurance placement. By placing all the insurance on its public housing together, the premium cost for 1983 was reduced by about $145,000. This takes into consideration an increase of about 5% in the total value of property insured as well as the decision by the Board to increase the amount of the deductible. A significant saving has been realized by making these changes in the manner of placing the insurance on the Corporation's public housing.

Internal administrative controls for branch offices

The weaknesses in internal administrative controls for branch offices reported last year have been corrected. The Head Office is also carrying out appropriate monitoring procedures to ensure compliance with the established systems. This matter is now satisfactorily resolved.

Manitoba Telephone System

Financial statements disclosure

As a matter of additional information not disclosed in the financial statements of the Manitoba Telephone System, the following provides the changes on a comparative basis for the fiscal years ended March 31, 1983 and March 31, 1982 in the Investment Fund shown on the Balance Sheet of the Manitoba Telephone System (*in millions of dollars*):

DEPARTMENTS AND AGENCIES OPERATIONS

Financial statements disclosure (Continued)

	March 31, 1983	March 31, 1982
Balance of the Fund beginning of year	$ 27.7	$22.1
Foreign exchange losses transactions:		
Balance beginning of year	31.2	25.6
Add:		
Cash set aside equal to the unrealized losses charged to operations	2.6	5.6
Cash set aside to cover the under-provided realized losses on redemptions before maturity charged to operations	.9	-
	34.7	31.2
Deduct:		
Cash withdrawn to cover the realized losses on redemptions before maturity referred to above	2.0	-
Balance end of year	32.7	31.2
Other transactions:		
Balance beginning of year	(3.5)	(3.5)
Add:		
Cash transferred to the Fund as directed by the Board	.5	-
Balance end of year	(3.0)	(3.5)
Balance of the Fund end of year	$ 29.7	$ 27.7

Financial statements disclosure

(Continued)

The Manitoba Telephone System incudes in its operating expenses unrealized foreign exchange losses on its foreign currency borrowings on an accruing basis. On the other hand, the Public Utilities Board only recognizes as an operating expense for rate setting purposes foreign exchange losses when realized. Unrealized losses are considered for rate setting purposes as a reserve provision only; this reserve amounted to $32.7 million as at March 31, 1983 ($31.2 million as at March 31, 1982).

Establishment of a wholly-owned subsidiary

In my last year's report, I expressed concern as to whether the System was extending its scope of operations beyond what the Legislature intended, when it incorporated MTX Telecom Services Inc. for the purpose of carrying out business activities outside of Manitoba. At that time, we were advised that both the Government and the Manitoba Telephone System were in the process of reviewing this matter.

As a result of that review, amendments were made to the Manitoba Telephone System Act and assented to by the Legislature on August 18, 1983. The amendment to Section 21.1 is such that the System now has the explicit authority to conduct business outside of Canada, subject to the approval of the Lieutenant Governor in Council.

Workers Compensation Board

During the fiscal year ended December 31, 1982 and partly during the fiscal year ended December 31, 1981, the operations of the Workers Compensation Board took an unprecedented turn in direction. Previously, annual assessments were made to cover the cost of operations including a provision for a Class Fund reserve prescribed by the Board. Commencing in 1981 the expenditures substantially exceeded the amounts recovered by assessments resulting in Class Fund operations' deficits of $1.6 million and $12.1 million for the fiscal years ended December 31, 1981 and 1982 respectively. Projections indicate that a $13 to $14 million deficit is anticipated for the fiscal year ending December 31, 1983. These deficits mainly arise from a reduction in revenue due to economic conditions and from increases in compensation and medical aid costs, some of which are also attributable to economic conditions, and in administrative expenditure. Section 66 (1) of The Workers Compensation Act states that "the Board shall in every year assess and levy upon and collect from, the employers in each class by an assessment or by assessments for sufficient funds, according to an estimate to be made by the Board, (a) to meet all amounts payable from the accident fund under this Part during the year including administration costs". It would appear that the requirement of this section of the Act has not been met since 1980 with the major impact being experienced during 1982 and anticipated in 1983.

The Board has retained the services of actuaries to review the assessment and rate setting process for the purposes of determining the employer assessments required for the 1984 year. As a matter of Board policy, the Class Fund reserve is to be maintained at a level to approximate an amount equal to the previous year's cost experience. The cost experience amounted to $35.0 million for 1980, $42.2 million for 1981 and $53.2 million for 1982. Even though the policy has not been changed, the reserve has now been reduced from $36.9 million as at December 31, 1980 to $23.2 million as at December 31, 1982, and with the projected deficit for 1983 being $13 to $14 million, the reserve could be reduced to about $10 million by December 31, 1983. This is a serious deterioration in the Class Fund financial position. The Board is giving this matter its attention. We will be reviewing the situation again after the actuaries have issued their report.

ORGANIZATION AND ACTIVITIES OF THE PROVINCIAL AUDITOR'S OFFICE

Scope of Audit and Reporting Procedures

The scope of my Office's audit and reporting procedures, as set out in Exhibit 1 of this report, are consistent with those of the preceding year. The audits and reports thereon are up-to-date.

Since the fiscal year ended March 31, 1973, we have been including a qualification in the report that until appropriate accountability systems, which include satisfactory standards of financial and administrative controls at the legislative and management levels, are established and functioning effectively, my Office is not in a position to carry out the kind of an analytical audit which would normally be expected. Since then we have also been commenting on the progress in improvements which were being made. As indicated previously and this year in other sections of the report, significant progress has been made. In particular, during the past several years it has been a requirement that management compare the actual revenue and expenditure with the estimates and provide variance explanations. This change was a major step in the improvement of control and accountability and is most beneficial in our audit work. Although the departmental comparisons and variance explanations are internal and are not as yet being provided to the Legislature, we feel that the accountability system has progressed to a level that the qualification referred to previously is no longer required to be made.

Prior to the management philosophy and process being documented by Treasury Board and communicated by way of guidelines and directives to departmental management as a reasonably working blueprint, we could only review the departmental management systems and controls during the course of our departmental audits on the basis of departmental plans, and not on the basis of a coordinated overall plan. Although the direction provided by Treasury Board and by other central authorities can be and is being improved on, it is not unreasonable now to expect departmental management to be working towards compliance with prescribed standards as expeditiously as practical. During the course of departmental audits we are now checking on compliance with the prescribed standards and will be reporting on specific departments which are not making effective progress towards compliance. This will include such matters as internal audit systems, departmental annual reports, and budgeting, accounting and variance explanation processes. As I have commented in my previous reports it would be helpful if departments, which are not complying effectively would be required to appear before the Public Accounts Committee to explain their difficulties.

Organization

The manner in which my Office is organized is shown in the Organizational Chart, Exhibit 4 of this report. The organizational structure has not changed from that of the preceding year.

During the month of March, 1983 the Practice Advisor of the Institute of Chartered Accountants of Manitoba reviewed on a selective basis financial statements reported on by me and the working papers supporting those audit opinions. After the completion of the review, we were advised that my Office met the required standards.

Staffing

In my previous year's report we indicated that our authorized staff complement was established at 63 positions. This total remains unchanged. Our staff complement consists of 5 senior officers (management committee); 3 audit specialists (2 specializing in computer auditing and 1 in operational auditing); 12 senior auditors; 39 auditors, technical staff and accountancy students; and 4 secretarial and administrative staff.

Because of staff turnover and our recruitment program being geared to workload demands, there frequently are a number of vacancies in the authorized positions. As at August 31, 1983 there were 8 vacant positions. However, we are not experiencing any staffing difficulties and are able to fill the vacancies as needed. The actual staff years for the fiscal year ended March 31, 1983 were 55.00 as compared with 52.36 for the preceding fiscal year.

Staff Training

We have continued our staff training and development over the past year in three areas: computer auditing, operational auditing and general auditing concepts and methodology.

The Office has continued to progress with the development of its in-house computer expertise. Higher level advice and direction from the computer audit specialist employed on a contract basis has continued to be most useful. This individual has assisted

ORGANIZATION AND ACTIVITIES OF THE PROVINCIAL AUDITOR'S OFFICE

Staff Training *(Continued)*

our other computer audit specialists in the use of computer assisted audit techniques to increase our audit efficiency and coverage of the government's central disbursements system. This also helps our regular audit staff to become more aware of the advantages and methodology of this type of approach.

Our computer audit specialists assisted in the formation of a Winnipeg Chapter of the E.D.P. Auditors' Association, which commenced its activities in early 1983. One of our specialists was elected as an officer of the Chapter.

Our operational audit specialist has conducted audits utilizing operational audit techniques and assisted other senior audit staff in developing a broader operational audit approach in their audit assignments.

The Office has continued its general audit in-house training program for our audit support staff. In addition, certain of our general audit staff have been utilized on a rotational basis in the audit of the central systems consisting of the Treasury Board and the other central authorities. This has proven to be advantageous in broadening their understanding of the operations of the central systems and worthwhile from an overall staff development perspective.

Formal training available from outside my Office has again been utilized during the past year. Members of my staff have attended relevant courses, arranged oy the Development and Training Branch of the Civil Service Commission, and by other professional accounting, auditing and computer oriented organizations, where it was considered that these courses would be of benefit to job performance. Members of my staff have also continued to participate with the Development and Training Branch of the Civil Service Commission, and with the Department of Finance, to assist them in developing and evaluating specialized courses for presentation to government personnel. Certain of my staff also participate as part-time lecturers on their own time in professional auditing courses at teaching institutions.

Revenue and Expenditure

The revenue and expenditure of the Office for the year ended March 31, 1983 as compared with that of the preceding year is as follows:

	March 31		
	1983	1982	Increase
Revenue	$ 491,342	$ 371,382	$119,960
Expenditure:			
Salary	1,857,347	1,566,570	290,777
Other	128,940	110,659	18,281
	1,986,287	1,677,229	309,058
Net charge to the Consolidated Fund	$1,494,945	$1,305,847	$189,098

The revenue consists of charges to government agencies which we audit. The revenue charges are made in accordance with the Provincial Auditor's Act, on a basis of rates established in compliance with an order-in-council, covering salary costs plus 25 percent for overhead.

The revenue and expenditure increases mainly arise from inflationary factors and from additional work resulting from 11 additional attest audit assignments consisting of: Alcoholism Foundation of Manitoba; Horse Racing Commission; Leaf Rapids Town Properties Ltd.; Liquor Control Commission; Manitoba Beef Commission; Manitoba Data Services Commission; Manitoba Forestry Resources Ltd.; Manitoba Housing and Renewal Corporation; Manitoba Lotteries and Gaming Control Commission; Venture Manitoba Tours Ltd.; and, Winnipeg Racing Ltd. Only two of the aforementioned crown agencies' audits were completed, audit fees paid and included as revenue for the fiscal year ended March 31, 1983. The remaining agencies's audits were completed and the audit fees billed subsequent to March 31, 1983. Because revenue is recorded on a cash basis these fees are included as revenue for the fiscal year ended March 31, 1984.

Audit of the Accounts of the Provincial Auditor's Office

In accordance with section 19 of The Provincial Auditor's Act, an audit of the accounts of the Provincial Auditor's Office was carried out for the year ended March 31, 1983 by a professional accountant from the Comptroller's Division, Department of Finance. A copy of the report issued to the Minister of Finance concerning this audit is included as Exhibit 5 in this report.

ORGANIZATION AND ACTIVITIES OF THE PROVINCIAL AUDITOR'S OFFICE

Meeting of Legislative Auditors

The eleventh annual Canadian Legislative Auditors' Conference was held in Toronto, Ontario July 11-13, 1983. These meetings continue to be extremely useful as a forum for the discussion of the matters of mutual interest and the sharing of technical and other information pertaining to the work of our Offices. The Assistant Provincial Auditor and I attended the conference.

The Chairmen of the Public Accounts Committees in Canada held their fifth annual meeting in Toronto at the same time as our conference so that the agendas of both groups could again be arranged for a joint session to discuss matters of common interest.

The 1984 Canadian Legislative Auditors' Conference will be held in Charlottetown, Prince Edward Island. Arrangements are again being made for a joint session with representatives from the Public Accounts Committees.

Provincial Auditor's Liaison Committee of the Institute of Chartered Accountants of Manitoba

This Committee provides a mechanism for the Provincial Auditor and representatives of the Institute in public practice to consider matters of mutual interest, and to ensure that there is a good understanding in their working relationships.

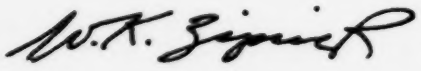
The Committee presently consists of Messrs. A. B. Brookes, C.A., Chairman, Earl C. McMillan, C.A., and Howard W. Robinson, F.C.A.

ACKNOWLEDGEMENTS

It is with pleasure that I take this opportunity to express on behalf of my staff and myself our thanks and appreciation for the understanding, co-operation and assistance which was extended to us during the course of our audits by officials and staff of departments, crown corporations and grantees.

We also express our thanks to the people of Manitoba, who communicate with us and provide us information, for their valuable assistance.

It is with gratitude that I express my sincere appreciation and thanks to the employees of my Office for the faithful performance of their duties.



W. K. Ziprick, C.A.,

Provincial Auditor.

October 28, 1983

Winnipeg, Manitoba.

EXHIBITS

1. Scope of audit and reporting procedures.

2. Schedule of government agencies whose accounts were audited and the financial statements reported on by the Provincial Auditor.

3. Schedule of government agencies whose accounts were audited and the financial statements reported on by Professional Audit Firms with an overview audit by the Provincial Auditor.

4. Organizational chart of the Provincial Auditor's Office.

5. Report on the audit of the Provincial Auditor's Office.

6. Summary of Special Warrants by Departments.

7. A reproduction of my report in the Public Accounts on financial statements included therein.

8. A reproduction of the Operating Fund Assets and Liabilities and Trust Fund Assets and Liabilities in the Public Accounts.

9. A reproduction of the Summary of Revenue and Expenditure in the Public Accounts.

10. A reproduction of the Excess of Liabilities Over Recorded Assets in the Public Accounts.

11. A reproduction of the Statement of Changes in Financial Position - Operating Fund in the Public Accounts.

12. A reproduction of the Accounting Policies - Statement of Application in the Public Accounts.

SCOPE OF AUDIT AND REPORTING PROCEDURES

General Comments

In accordance with the Provincial Auditor's Act, the Provincial Auditor's Office is required to carry out various kinds of audits, and a monitoring of accountability to the Legislature concerning the Provincial Government, its agencies and the recipients of public moneys. The Office carries out broad scope financial and administrative management audits of the Provincial Government and certain of its agencies, administrative management overview audits of the remaining government agencies whose financial audits are carried out by private audit firms, and inspection audits of selected recipients of public moneys. Particulars of these types of audits and their reporting procedures are outlined in the following sections.

Audits of the Provincial Government and its Agencies Entirely Audited by the Provincial Auditor

The Provincial Government, including the Consolidated Fund and all its departments, and the government agencies listed in Exhibit 2, are being audited using a systems based audit approach under the direction of professional accountants. These audits consisted of the following four components:

1. A financial examination for expressing an opinion on the fairness of the presentation in the financial statements. This examination is conducted in accordance with generally accepted auditing standards and includes a general review of the accounting procedures and systems of internal controls, together with such tests of accounting records and supporting evidence as are considered necessary in the circumstances.

2. An audit of payments from the Consolidated Fund. This audit is carried out on an on-line basis as the requests for payments are presented by departments, just before the requests are processed for payment by the central system. This part of the audit is fully co-ordinated with the systems based audits of departments. This approach complies with the pre-audit requirements of sections 10 and 11 of the Provincial Auditor's Act and is designed to provide an early detection of weaknesses or problems so that prompt corrective action can be taken. It also maintains our audit activity in a current position and adds discipline over special and unusual payments. This audit of payments consists of:

   a) An examination of all requests for payments to ensure that there is legislative authority for the payment, that the requests for payment are approved by designated officials and are being handled in a business-like manner to appropriately protect the Province's interests. Requests for payment not meeting the aforementioned requirements would be refused. Where there is no legislative authority, payments cannot be made. Payment refused for other reasons can only be made on special authority of the Minister of Finance. Our observations are normally attended to in a satisfactory manner so as to preclude any need for refusal. However, should there be a refusal the particulars would be fully reported to the Legislature in the annual report.

   b) Test checking of requests for payments for completeness of supporting documentation, accuracy of arithmetic calculations, compliance with government directives, etc. to ensure that the departmental purchasing, payroll and disbursements systems are operating satisfactorily. Matters noted which indicate that audit attention is required are referred to the staff member in our Office charged with the overall departmental audit responsibility for further consideration in the evaluation of the departmental systems, and in the development of audit recommendations for improvement. If the testing and evaluation of departmental systems revealed a breakdown, and it was concluded that the work being carried out by departmental personnel could not be relied upon to safeguard provincial funds, further requests for payments would be refused. Payments could then only be made on the special authority of the Minister of Finance. Departmental systems are normally corrected to incorporate audit recommendations for improvement on an ongoing basis to maintain the integrity of the systems. However, should this not be done and there was need for refusal of payment requests, the matter would be fully reported to the Legislature in the annual report.

SCOPE OF AUDIT AND REPORTING PROCEDURES

Audits of the Provincial Government and its Agencies Entirely Audited by the Provincial Auditor *(Continued)*

3. An examination of the administrative management and its controls to ascertain that the entity is organized and operating in a business-like manner with due regard for economy, efficiency and effectiveness. This examination is carried out within the capabilities of professional accountants with specialized training and experience. It includes a review of the entity's objectives and organizational structure, its budgeting and monitoring systems for comparing actual to budget with variance explanations, its internal audit system and other performance monitoring systems, its purchasing and staffing procedures, and its compliance with government guidelines.

4. A more in-depth investigation concerning specific problems observed during the course of the aforementioned examinations and noted from other sources such as:

   — concerns expressed in the Legislature or any of its committees;
   — reports in the news media; and,
   — concerns expressed privately by elected members, public servants and the general public. The sources of this information are held strictly confidential.

Management Overview Audits of Government Agencies Not Audited in their Entirety by the Provincial Auditor

Management overview audits are carried out by the Office for those government agencies listed in Exhibit 3. These are agencies for which audit firms were appointed to carry out audits for reporting on their financial statements. These audits by the audit firms are of a kind as described in the preceding component 1. The management overview audits by the Office consist of a review of the audited financial statements and management reports of the audit firms and the procedures as described in the preceding components 3 and 4.

Inspection Audits of Recipients of Public Moneys

The inspection audits of recipients of public moneys are carried out under the authority of section 17(4) of the Provincial Auditor's Act. These audits consist of visits to only a very limited number of grantees, the audit procedures are similar to those of the management overview audits described in the preceding section. An audit of a much larger number of grantees' accountability is carried out during the course of the audits of government departments and government agencies. These audit procedures mainly involve a review of the adequacy of the grantors' monitoring systems and the findings of these systems, together with an assessment of the findings and a determination that appropriate corrective action is being taken.

Reporting Procedures

Reporting on financial statements

Reports are issued on the fairness of the presentation of information in the financial statements in the Public Accounts, and of the government agencies listed in Exhibit 2.

Internal reporting

Observations made during the course of our audits identifying weaknesses in internal control, ineffective supervision, records not being up-to-date and any other deficiencies or irregularities are recorded in the working papers and immediately brought to the attention of the officials concerned for appropriate action. Matters of a kind which warrant the attention of ministers and chairpersons of the boards of government agencies are directed to them in written reports in accordance with the requirements of subsection (3) of section 12 of The Provincial Auditor's Act. During subsequent visits our auditors follow-up these matters to ascertain that appropriate action has been taken to resolve the problems.

Annual report to the Legislative Assembly

Significant problems, which have been reported to ministers and chairpersons of the boards of government agencies but which have not been resolved within a reasonable period of time, are

SCOPE OF AUDIT AND REPORTING PROCEDURES

Annual report to the Legislative Assembly (Continued)

reported on in my annual report to the Legislative Assembly. A number of significant problems which have been resolved are also included in mv annual report. They are of a kind which in the Provincial Auditor's judgement warrant the attention of the Assembly as information, either because they were raised in the Assembly, or a committee of the Assembly, or for reasons of maintaining confidence in the system. Both the problems and the corrective actions are reported.

GOVERNMENT OF THE PROVINCE OF MANITOBA

Schedule of Government Agencies Whose Accounts Were Audited and the Financial Statements Reported on by the Provincial Auditor

Name of Organization	Fiscal Year Ended
Alcoholism Foundation of Manitoba	March 31, 1983
Board of Administration under The Embalmers and Funeral Directors' Act	December 31, 1982
Brandon University	March 31, 1983
Brandon University Pension Fund	December 31, 1982
Centre Culturel Franco-Manitobain	March 31, 1983
Channel Area Loggers Ltd	March 31, 1983
Civil Service Superannuation Fund	December 31, 1982
Communities Economic Development Fund	March 31, 1983
Co-operative Loans and Loans Guarantee Board	March 31, 1983
Co-operative Promotion Board	March 31, 1983
Department of Municipal Affairs - Minister's Trust Account	March 31, 1983
Horse Racing Commission	December 31, 1982
Leaf Rapids Town Properties Ltd.	March 31, 1983
Legal Aid Services Society of Manitoba	March 31, 1983
Liquor Control Commission	March 31, 1983
Manitoba Agricultural Credit Corporation	March 31, 1983
Manitoba Arc Authority Incorporated	March 31, 1983
Manitoba Arts Council	March 31, 1983
Manitoba Beef Commission	March 31, 1983
Manitoba Centennial Centre Corporation	March 31, 1983
Manitoba Crop Insurance Corporation	March 31, 1983
Manitoba Data Services Commission	March 31, 1983
Manitoba Development Corporation	March 31, 1983
Manitoba Forestry Resources Ltd.	September 30, 1982
Manitoba Health Services Commission	March 31, 1983
Manitoba Hospital Capital Financing Authority	March 31, 1983
Manitoba Housing and Renewal Corporation	March 31, 1983
Manitoba Lotteries and Gaming Control Commission	March 31, 1983
Manitoba Mental Health Research Foundation	March 31, 1983
Manitoba Milk Prices Review Commission	March 31, 1983
Manitoba Mineral Resources Ltd.	March 31, 1983
Manitoba Research Council	March 31, 1983
Manitoba School Capital Financing Authority	March 31, 1983
Manitoba Text Book Bureau	March 31, 1983
Manitoba Trading Corporation	March 31, 1983
Manitoba Vegetable Producers' Marketing Board	June 30, 1982
Manitoba Water Services Board	March 31, 1983
Moose Lake Loggers Ltd.	March 31, 1983
Municipal Employee Benefits Fund	December 31, 1982
Northern Affairs Fund	March 31, 1983
Peak of the Market Sales Ltd.	June 30, 1982
Public Schools Finance Board	December 31, 1982
Public Service Group Insurance Fund	April 30, 1982
Public Trustee of Manitoba	March 31, 1983

GOVERNMENT OF THE PROVINCE OF MANITOBA

Schedule of Government Agencies Whose Accounts Were Audited and the Financial Statements Reported on by the Provincial Auditor

Name of Organization	Fiscal Year Ended
Teachers' Retirement Allowances Fund	December 31, 1982
Universities Grants Commission	March 31, 1983
University of Manitoba	March 31, 1983
University of Manitoba Pension Plan (1970)	December 31, 1982
University of Winnipeg	March 31, 1983
Venture Manitoba Tours Ltd.	March 31, 1983
Winnipeg Racing Ltd.	December 31, 1982

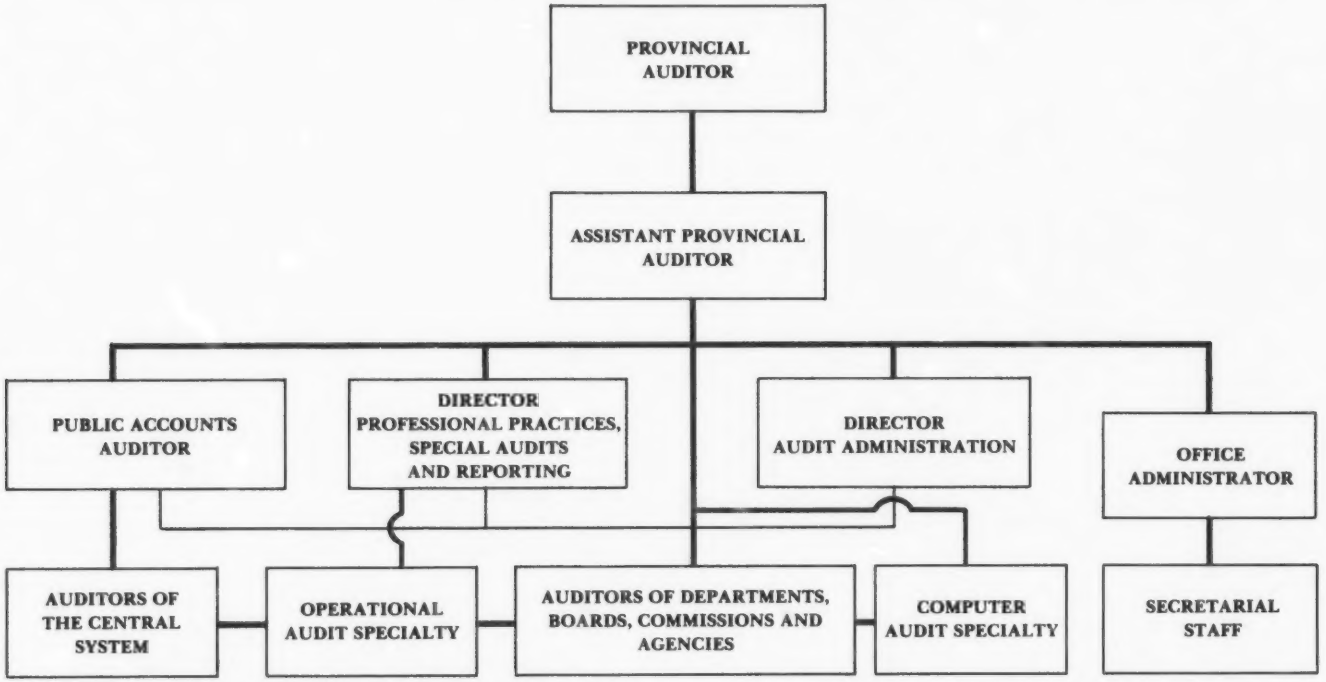
In addition to the foregoing, there are other government agencies which do not have their own funds but carry out their operations through the Consolidated Fund. The operations of these agencies are audited as part of our regular audit of the Consolidated Fund.

GOVERNMENT OF THE PROVINCE OF MANITOBA

Schedule of Government Agencies Whose Accounts Were Audited and the Financial Statements Reported on by Professional Audit Firms with an Overview Audit by the Provincial Auditor

Name of Organization	Fiscal Year Ended
A. E. McKenzie Co. Ltd. and Subsidiaries	October 31, 1982
Alonsa Conservation District No. 3	December 31, 1982
Cooks Creek Conservation District No. 5	December 31, 1982
Credit Union Stabilization Fund	December 31, 1982
Flyer Industries Limited	December 31, 1982
Fonds de Sécurité des Caisses Populaires	December 31, 1982
Manitoba Boxing and Wrestling Commission	March 31, 1983
Manitoba Health Research Council	March 31, 1983
Manitoba Hydro-Electric Board	March 31, 1983
Manitoba Public Insurance Corporation	October 31, 1982
Manitoba Telephone System	March 31, 1983
Rehabilitation Centre for Children Inc.	March 31, 1983
Turtle Mountain Conservation District No. 4	December 31, 1982
Turtle River Watershed Conservation District No. 2	December 31, 1982
Whitemud Watershed Conservation District No. 1	December 31, 1982
Workers Compensation Board	December 31, 1982

ORGANIZATIONAL CHART OF THE PROVINCIAL AUDITOR'S OFFICE



The chart is structured on a hierarchical basis but in practice the roles and responsibilities may overlap. The overall policies and operations of the Audit Office are directed by a Management Committee consisting of the Provincial Auditor, the Assistant Provincial Auditor and three senior officers with each member focusing his attention on specific areas of responsibility. The operational policies are set out in an Office Manual.

Exhibit 4

Exhibit 5

MANITOBA

DEPARTMENT OF FINANCE
Comptroller's Division

September 29, 1983

Honourable Victor Schroeder
Minister of Finance
103 Legislative Building

Dear Sir:

Section 19 of the Provincial Auditor's Act states:

> "A qualified auditor nominated by the Executive Council or a committee thereof shall examine the receipts and disbursements of the Office of the Provincial Auditor and shall annually make a report of the outcome of the examination to the assembly which shall be submitted to the member of the Executive Council charged with the administration of The Financial Administration Act on or before the last day of December next following the end of the fiscal year of the government to which the report relates."

My Branch now performs this audit on a regular basis. Under my direction, an auditor from the Systems Planning and Development Branch has conducted an audit of the Provincial Auditor's Office for the year ended March 31, 1983.

The audit was limited to a general review of the accounting procedures and accounting records of the Provincial Auditor's Office. Such tests were performed as were considered necessary in the circumstances.

In my opinion, the accounts of the Audit Office are maintained in an efficient, well organized manner and comply with all the requirements of the Financial Administration Act and all other applicable statutes.

Yours truly,

Bryan DePape

Bryan DePape, C.A.
Director

Systems Planning & Development
Department of Finance

cc: W.K. Ziprick

Exhibit 6

GOVERNMENT OF THE PROVINCE OF MANITOBA

Summary of Special Warrants by Departments

Department	Year Ended March 31 1983	1982
Legislation	$ -	$2,167,400
Executive Council	14,200	98,700
Agriculture	575,000	4,706,700
Attorney-General	3,346,200	3,345,500
Civil Service	3,395,400	3,095,300
Community Services and Corrections	14,538,000	742,000
Consumer and Corporate Affairs	11,000	87,300
Co-operative Development	278,300	493,100
Cultural Affairs and Historical Resources	536,400	800,000
Economic Development and Tourism	-	1,139,500
Education	3,597,800	335,700
Energy and Mines	200,300	566,800
Finance	6,103,700	301,300
Fitness, Recreation and Sport	133,100	30,000
Government Services	1,060,300	5,072,800
Health	1,420,200	49,331,300
Highways and Transportation	3,120,500	19,069,400
Labour and Manpower	540,000	224,500
Housing	100,000	-
Municipal Affairs	1,543,800	929,400
Natural Resources	955,200	9,101,900
Northern Affairs, Environment and Workplace Safety and Health	1,514,000	1,292,200
Urban Affairs	1,060,600	60,800
Flood Control and Emergency Expenditures	-	2,500,000
	$44,044,000	$105,491,600

NOTE: The 1982 figures have been restated where necessary for comparison purposes to reflect program transfers between departments in 1983.

REPORT OF THE PROVINCIAL AUDITOR ON THE CONSOLIDATED FUND FINANCIAL STATEMENTS IN THE PUBLIC ACCOUNTS OF MANITOBA

I report that the Consolidated Fund financial statements together with the supporting data and explanatory notes included in the Public Accounts have been examined under my direction for the fiscal year ended March 31, 1983. The examination was made in accordance with generally accepted auditing standards and included such inquiries, tests and other procedures as were considered necessary to enable me to report as required by section 14 of The Provincial Auditor's Act.

In my opinion, the Consolidated Fund financial statements, together with the supporting data and explanatory notes in the Public Accounts, fairly present information in accordance with the accounting policies of the Government stated in the Public Accounts on a basis consistent with that of the preceding year, except for the change in the discontinuance of reserve accounts for gravel pits and road machinery as explained in Accounting Policies Application III 9 and VI a), with which I agree. The impact of this change was not material with the balance of the reserves of $1.2 million as at March 31, 1982 being fully utilized during the fiscal year ended March 31, 1983.

W. K. Ziprick, C.A.,
Provincial Auditor.

October 28, 1983,
Winnipeg, Manitoba.

GOVERNMENT OF THE PROVINCE OF MANITOBA

OPERATING FUND ASSETS AND LIABILITIES

AS AT MARCH 31, 1983

(with comparative figures for March 31, 1982)

ASSETS	March 31, 1983	March 31, 1982
Temporary Investments	$ 772,841,573	$ 604,342,412
Advances and Other Receivables:		
Crown Corporations, Agencies, Boards and Commissions (Net of related Sinking Funds of $83,941,123 at March 31, 1983 and $68,246,651 at March 31, 1982)	1,947,392,157	1,584,338,687
Government of Canada and Others	67,791,846	62,150,821
Long Term Investments	247,333,110	243,068,323
	$3,035,358,686	$2,493,900,243
LESS: Allowance for Losses on Realization of Assets	134,955,156	114,026,256
Total Assets	2,900,403,530	2,379,873,987
Excess of Liabilities over Recorded Assets	1,546,707,928	1,091,131,643
	$4,447,111,458	$3,471,005,630
LIABILITIES		
Amount Owing to the Trust Fund	$ 497,498,324	$ 313,408,597
Bank Overdraft and Promissory Notes	18,573,808	53,565,192
Accounts Payable, Accrued Charges and Funds Subject to Call	367,628,030	250,273,452
	$ 883,700,162	$ 617,247,241
Reserve Accounts	$ —	$ 1,221,235
Bonds, Debentures and Other Securities	$4,005,061,548	$3,193,883,997
LESS: Sinking Funds Provided	412,150,252	341,346,843
	$3,592,911,296	$2,852,537,154
LESS: Debentures issued under Financial Assistance Agreements	29,500,000	—
	$3,563,411,296	$2,852,537,154
Total Liabilities	$4,447,111,458	$3,471,005,630
GUARANTEED AND INDIRECT LIABILITIES		
Securities Guaranteed by the Government, as listed on Pages 3-9 to 3-12		
Self-supporting Debt	$1,649,019,374	$1,805,105,186
Debt Serviced in Whole or in Part from the Consolidated Fund	238,080,473	238,533,499
	$1,887,099,847	$2,043,638,685
LESS: Applicable Sinking Funds	223,420,478	221,790,324
	$1,663,679,369	$1,821,848,361

GOVERNMENT OF THE PROVINCE OF MANITOBA

TRUST FUND ASSETS AND LIABILITIES

As at March 31, 1983
(with Comparative Figures for March 31, 1982)

ASSETS	March 31, 1983	March 31, 1982
Amount Due from Operating Fund	$497,498,324	$313,408,597
Cash and Investments	386,365,289	388,635,149
Total Trust Assets	$883,863,613	$702,043,746
LIABILITIES		
Trust Fund Balances	$883,863,613	$702,043,746
Total Trust Liabilities	$883,863,613	$702,043,746
CUSTODIAL TRUST FUNDS		
Cash, Bonds and Other Securities held by the Department of Finance and Other Government Departments — as listed on page 5 - 19	$615,206,216	$587,190,309

GOVERNMENT OF THE PROVINCE OF MANITOBA

SUMMARY OF REVENUE AND EXPENDITURE

For the Year Ended March 31, 1983
(with comparative figures for March 31, 1982)

Actual 1981-1982	Actual 1982-1983	Net Increase (Decrease)		1982-1983 Actual	1982-1983 Estimated	1982-1983 Variance
$2,431,863,998	$2,843,608,038	$411,744,040	Expenditure	$2,843,608,038	$2,838,756,600	$ 4,851,438
2,180,821,120	2,408,960,653	228,139,533	Revenue	2,408,960,653	2,495,234,300	(86,273,647)
$ 251,042,878	$ 434,647,385	$ 183,604,507	Excess of Expenditure Over Revenue	$ 434,647,385	$ 343,522,300	$ 91,125,085

NOTE 1: Adjustments to the Government's Asset and Liability Accounts which generally result from the operations of previous fiscal years and do not directly affect the Revenue and Expenditure of the Fiscal year being reported, are disclosed on the statement entitled "Excess of Liabilities Over Recorded Assets".

NOTE 2: The "Estimated" Expenditure shown above consists only of the Main and Supplementary Estimates. This amount was increased during the fiscal year as follows:

Main and Supplementary Estimates (including general statutory appropriations)	$2,838,756,600
Special Warrants	44,044,000
Adjustment of estimated amount of statutory appropriations to actual expenditure	36,008,945
Total Authorized Expenditure	$2,918,809,545

GOVERNMENT OF THE PROVINCE OF MANITOBA

EXCESS OF LIABILITIES OVER RECORDED ASSETS

As at March 31, 1983

Balance March 31, 1982		$1,091,131,643
Excess of Expenditure over Revenue for the fiscal year ended March 31, 1983		434,647,385
		$1,525,779,028
Add:		
Increase in allowance For Losses on Realization of Assets		
March 31, 1983 Balance	$ 134,955,156	
March 31, 1982 Balance	114,026,256	20,928,900
Balance March 31, 1983		$1,546,707,928

GOVERNMENT OF THE PROVINCE OF MANITOBA

STATEMENT OF CHANGES IN FINANCIAL POSITION — OPERATING FUND

For the Year Ended March 31, 1983
(with comparative figures for the year ended March 31, 1982)

		March 31, 1983		March 31, 1982
EXCESS OF EXPENDITURE OVER REVENUE		$434,647,385		$251,042,878
Transfer of Special Municipal Loan and General Emergency Fund to Revenue		—		24,996,733
Decrease in Reserves for Depreciation and Replacement		1,221,235		52,673
Net Increase in Long Term Investments, Advances and Other Receivables in Respect of:				
Crown Corporations, Agencies, Boards and Commissions	$367,454,279		$213,788,430	
Others	5,355,854	372,810,133	2,940,870	216,729,300
NET FINANCIAL REQUIREMENT		$808,678,753		$492,821,584
FINANCING WAS PROVIDED BY:				
Debt Transactions				
Proceeds of Loans	$909,651,192		$735,571,355	
LESS: Retirement of Loans	127,973,641		90,110,547	
	$781,677,551		$645,460,808	
LESS: Net Contributions to Sinking Funds	70,803,409		61,021,310	
NET PROCEEDS FROM BORROWING		710,874,142		584,439,498
FINANCING EXCEEDED REQUIREMENT		$ (97,804,611)		$ 91,617,914
WORKING CAPITAL (DEFICIENCY) BEGINNING OF YEAR		20,458,483		(71,159,431)
WORKING CAPITAL (DEFICIENCY) END OF YEAR		$ (77,346,128)		$ 20,458,483

GOVERNMENT OF THE PROVINCE OF MANITOBA

ACCOUNTING POLICIES—STATEMENT AND APPLICATION

STATEMENT

The basic accounting policies followed by the Government of Manitoba, which have been applied in the preparation of these Public Accounts, are summarized below. These policies have been developed and are applied in accord with the provisions of the Financial Administration Act, which is Chapter F55 of The Continuing Consolidation of The Statutes of Manitoba. Further information regarding their application to the financial transactions of the Government is provided in the section entitled "Application".

I. THE ACCOUNTING ENTITY

The financial transactions of the Government are recorded in "The Consolidated Fund ". The activities of The Consolidated Fund are divided into the "Operating Fund", which records the operational activities of the Government, and the "Trust Fund", which records the trust administration function.

Financial statements prepared for the "Operating Fund" report amounts received as Government revenue, expenditure on Government programs, the lending and investment of Government funds and the borrowing and repayment of debt. Financial statements prepared for the "Trust Fund" report the activities in the various categories of trust money administered by the Government.

The financial operations of the provincial Crown Corporations, Agencies, Boards and Commissions are reflected in The Consolidated Fund to the extent that:

1) They receive money from or pay money to the Government.

2) Any deficits they incur are adjusted against the amounts loaned, advanced or invested in them by the Government.

II. CASH BASIS OF ACCOUNTING

A REVENUE

i) Revenue, with the exception of shared-cost receipts and Canada-Manitoba Fiscal Arrangements, is ordinarily recorded on a cash basis. Accordingly, all money received by Departments on or before March 31 is included in the revenue for the fiscal year, provided that it is deposited with the Minister of Finance prior to the fifteenth day of April, immediately following.

ii) Money received pursuant to shared-cost agreements and arrangements that extend over more than one fiscal year is recorded as revenue in each fiscal year in proportion to the related expenditure made in the respective year. Accordingly, the uncollected balance of the shared-cost claims related to the fiscal year being reported will be included in the revenue of that fiscal year.

iii) Revenue and expenditure are recorded in gross amounts (referred to as the Gross Accounting Concept) with the exception of the Municipal Share of Individual and Corporation Income Taxes, which is paid to Municipalities in accordance with the Provincial-Municipal Tax Sharing Act and is not recorded as revenue by the Government.

iv) Recoveries from Crown Corporations and Government Agencies of the debt servicing costs on self-supporting debt and certain investment income are recorded as a reduction of Public Debt expenditure.

B EXPENDITURE

Expenditure is recorded on a cash basis, modified to allow an additional forty-five days after the end of the fiscal year for the processing of payments pertaining to that fiscal year. Salaries and wages, however, are charged to the fiscal year in which they are paid. As well, an accrual is made to March 31st for interest payable on bonds, debentures and other securities.

III. ASSETS AND LIABILITIES

1. The assets and liabilities reported in the financial statements are financial claims consisting of assets which are claims by the Government on other parties and liabilities which are claims by other parties on the Government.

2. Expenditure for the acquisition and/or construction of physical assets together with inventories and other deferred expenditures is not considered to differ from any other service to the Public and accordingly is treated as operating expenditure of the year in which the expenditure is made. Since such expenditure does not represent financial claims on others, it is not reported as an asset at fiscal year-end. This does not negate the fact that the Government has substantial holdings of physical assets such as buildings, highways, education and health facilities, which may tend to appreciate in value over time.

3. Amounts loaned, advanced or invested in Crown Corporations, Agencies, Boards and Commissions are subject to annual revaluation. An Allowance For Losses On Realization Of Assets is provided and is adjusted annually to reflect the estimated change in value of these assets.

4. Bonds, debentures and other securities are recorded as liabilities at the par value of such securities and any discount, premium or commission expense is treated as an expenditure of the year in which it is incurred. For foreign issues, the par value is converted to Canadian Funds at the exchange rate in effect at the date of issue, or the actual conversion rate of the proceeds. Sinking funds are maintained in accordance with the legal requirements of the debt instruments and the Financial Administration Act.

IV. GUARANTEED AND INDIRECT LIABILITIES

In addition to having direct debt, the Government also acts as a guarantor of securities issued by various other entities. The debt guaranteed pertaining to Crown Corporations, Agencies, Boards and Commissions is largely self-supporting. Other guaranteed debt for schools, universities and hospitals is serviced in whole or in part from appropriations of the Consolidated Fund. Legislation requires the maintenance of Sinking Funds for the retirement of the debt of most Crown Corporations, Agencies, Boards and Commissions. These Sinking Funds are maintained by the Minister of Finance through annual contributions from the Crown Corporation, Agency, Board or Commission to whom the debt applies and are held in the Trust Fund.

Other Contingent Liabilities that result from other financial activities of the Government are also reported annually in the Public Accounts.

APPLICATION

The following outlines the application of these accounting policies to the financial transactions of the Government:

I. REVENUE

The revenue of the fiscal year is generally the amount received during the fiscal year. An exception is made for shared-cost receipts, and Revenue from the Government of Canada, which are subject to the following additional practices:

a) Where, pursuant to an agreement or arrangement, money is received in advance relating to projects for which expenditure is to be made in more than one fiscal year, the money is deemed to have been received in each fiscal year in proportion to the related expenditure made in the respective fiscal year. A statement of the amounts not taken into Revenue (Deferred Revenue) is included in Section 4 of the Public Accounts.

b) It is the practice to show the uncollected balance of claims related to shared-cost agreements with the Government of Canada as an accounts receivable at March 31. This accrual is made in order that the revenue from this source is recorded in proportion to the related expenditure incurred in the fiscal year.

c) An additional practice is in effect regarding revenue from the Government of Canada under the Canada-Manitoba Fiscal Arrangements. The accounts are kept open until June 30 to reflect any adjustments to this revenue for the fiscal year just ended that the Government of Manitoba may become aware of before that date. Since this is the Government's largest single source of revenue, this practice is considered necessary to show the financial condition of the Government in the most accurate manner possible.

II. EXPENDITURE

The expenditure of the fiscal year is essentially the payments made from appropriations during the fiscal year and for a subsequent forty-five day period after March 31. The accounts remain open during this period to allow processing time for expenditure pertaining to the fiscal year just ended.

An exception to this procedure is made for the interest cost on the long-term debt of the Government. In this regard, an accrual is made to March 31st for the interest payable on bonds, debentures and other securities. In the case of foreign issues, the accrual is based on the exchange rate that was recorded at the time of debt issue. There is no provision made for the fluctuation of foreign currencies between the debt issue dates and the interest payment dates.

The Allowance For Losses On Realization Of Assets is not charged to an appropriation. This amount, which represents an estimate of the change in recoverable value of the loans, advances and investments in Crown Corporations, Agencies, Boards and Commissions during the fiscal year, is not shown on the Statement of Revenue and Expenditure. It is reported on the statement that discloses the Excess of Liabilities Over Recorded Assets unless there is a legal realization of the loss, in which case the final write off of the loan advance or investment will be disclosed after the operating results on the Summary of Revenue and Expenditure. The final write off of the loan, advance or investment will be detailed as to the year in which the allowance was recorded.

Payments made during the fiscal year from depreciation and replacement reserves established pursuant to Section 20 of the Financial Administration Act are not aggregated with provincial expenditure because the reserves were originally created and were supplemented annually from funds charged to expenditure appropriations.

Payments made by the Government for the purposes of acquiring property or physical assets are classified in a separate category of expenditure called "Expenditures Related to Capital Assets" and are defined as follows:

a) Expenditures for property of all kinds, both real property and chattels, purchased or self-constructed for use by Government that are deemed to have an economic life in excess of one year.

b) Expenditures for projects or activities which entail major renewals, modification or modernization by own labour forces or on behalf of the Government. The expenditures should significantly prolong the expected economic life of the asset.

c) The principal portion of a debt repayment when the debt was incurred to acquire a physical asset and the acquisition cost of the physical asset was not previously reflected in the consolidated fund as an expenditure.

d) Grants or assistance payments to municipalities, school divisions, external agencies, commercial organizations and private individuals which are known to be for the purpose of acquiring physical assets.

III. ASSETS AND LIABILITIES

The statement of Assets and Liabilities is prepared in accordance with the following practices:

1. **TEMPORARY INVESTMENTS**
This category includes securities held as a result of the investment of the Government's cash flow and is generally comprised of money market instruments such as term deposits and negotiable securities which are intended to be held for a short term. All investments are shown at cost.

2. **ADVANCES AND OTHER RECEIVABLES**
Advances to Crown Corporations, Agencies, Boards and Commissions, which are generally interest bearing, are shown under this heading as well as financial claims on the Government of Canada and other parties. Amounts due within one year of the statement date are shown as "Current Amounts" and all others are classified as "Not Current". Balances under the advances category are not separated into a current portion and non-current portion even though repayment schedules may exist for some of these items. The Sinking Funds provided by Crown Corporations, Agencies, Boards and Commissions for repayment of the debt issued to fund advances to these entities are deducted from the advances.

Certain of the Crown Corporations are charged with a responsibility for administering Government programs for which they receive funds from Government appropriations. These funds are applied by the Corporation towards the program administration cost, including, in some cases, a portion of the interest they are charged on these advances. The principal repayment and/or interest charges for certain of the advances are dependent on total or partial funding from future appropriations of the Operating Fund.

3. **LONG-TERM INVESTMENTS**
The majority of the Province's long-term investments consist of shares and debentures of Crown Corporations. These investments are carried at cost which does not reflect the realizable value of the investments. Any decrease in the estimated realizable value is provided for in the Allowance For Losses On Realization Of Assets, which is described in the next paragraph.

4. **ALLOWANCE FOR LOSSES ON REALIZATION OF ASSETS**
An allowance is provided for decreases in the value of loans, advances and investments and is adjusted annually for changes that may occur in the estimated realizable value of these assets. The allowance is intended to provide for the accumulated deficits of the Crown Corporations, Agencies, Boards and Commissions in which the Government has invested money by way of loans, advances or purchases of shares. The valuation is based on the most recent audited financial statements applicable to the fiscal year being reported that are available at the time of publication of the Public Accounts. If the Government has more than one type of investment in an organization (eg. common shares, preferred shares and debentures), the accumulated deficit is assigned against the investments in order of priority on liquidation.

5. **EXCESS OF LIABILITIES OVER RECORDED ASSETS**
This account represents the difference between liabilities which are financial claims owing by the Government, and recorded assets, which are financial claims receivable by the Government. Since the physical assets and materials inventories of the Government do not constitute a financial claim receivable by the Government, they are not considered in the determination of this balance.

6. **AMOUNT OWING TO TRUST FUND**
A large portion of this money has been deposited with the Minister of Finance in accordance with the terms of the legislation regulating the management of sinking funds and surplus cash of Crown Corporations, Agencies, Boards and Commissions, but is not specifically invested. Such deposits are accorded a market rate of interest.

7. **BANK OVERDRAFT AND PROMISSORY NOTES**
This category represents the net overdraft in Government bank accounts adjusted for cheques issued prior to and not presented for payment at March 31 and for cash in transit. Short term promissory notes are issued in lieu of increasing bank overdraft or liquidating investments to accommodate fluctuations in the cash flow cycle and are therefore considered together with the bank overdraft. Cheques issued subsequent to March 31 but chargeable to the fiscal year just ended are described in the next category.

8. **ACCOUNTS PAYABLE, ACCRUED CHARGES AND FUNDS SUBJECT TO CALL**
Cheques issued during the forty-five day period after March 31, in payment for goods and services pertaining to the fiscal year just ended are shown as accounts payable rather than as outstanding cheques.

Accrued charges represent the accrual of interest on provincial securities.

Funds subject to call consist in part of money received from the Government of Canada that will not be taken into revenue until earned. This was earlier described as Deferred Revenue in paragraph la). As well, this category includes the liability for uninvested cash belonging to the Provincial Sinking Fund. This cash is designated as part of the Provincial Sinking Fund and must be kept available for investment.

9. **RESERVE ACCOUNTS**
In previous fiscal years depreciation and replacement reserves were maintained by the payment of annual allotments from appropriated funds and by deposit of the proceeds from sale of equipment. The accumulated purchases of machinery and equipment that were made from the reserve accounts were deducted from the reserve balances to show the amounts available. An accounting policy change was made during the fiscal year ended March 31, 1983 regarding the continuation of these reserves. This change is explained in Section VI, Changes In Accounting Policy.

10. BONDS, DEBENTURES AND OTHER SECURITIES

This category includes bonds, debentures, secured loans from the Government of Canada, treasury bills and notes. Securities issued in Canadian Funds are recorded at par value. Securities issued in foreign funds are recorded at the Canadian Dollar equivalent of the par value based on the actual conversion of the proceeds or at the exchange rate in effect at the date of issue if conversion does not take place at issue date. Securities payable in foreign funds issued for the purpose of refunding other issues payable in the same currency are recorded at the Canadian Dollar equivalent of the par value at the date of issue.

The Government is required, by legislation, to determine the Canadian Dollar equivalent of provincial securities issued in foreign currencies or units of monetary value at March 31st of each year. The amount determined must be published in the Public Accounts as information regarding the current valuation of this foreign debt. This statement is included in Section 3 of the Public Accounts.

11. SINKING FUNDS PROVIDED

Sinking Funds are maintained in accordance with the legal requirements of the debt instruments and the Financial Administration Act. Money is allocated annually to these sinking funds on the following basis:

a) A sum equal to 3% of the aggregate amount of general purpose debt, in Canadian Dollars, outstanding at the end of the preceding fiscal year; and

b) All earnings derived from investing the sinking fund.

In addition principal repayments of advances which are funded by the issue of provincial securities are deposited to the sinking fund provided that the principal repayments are made prior to the maturity date of such securities.

The total shown for sinking funds also includes sinking fund money provided by Crown Corporations, Agencies, Boards and Commissions in respect to debt incurred on their behalf by the Government.

12. DEBENTURES ISSUED UNDER FINANCIAL ASSISTANCE AGREEMENTS

Bonds, debentures and other securities include debentures issued under agreements with the Credit Union Stabilization Fund and Les Fonds de Securite des Caisses Populaires whereby these organizations received advances in the form of provincial debentures which are required to be cancelled at maturity. The purpose of this arrangement was to provide for financial assistance to the aforementioned entities during the term of the debentures consistent with the interest payable on these debentures.

IV. TRUST FUNDS

The Trust Fund is divided into two primary divisions, Administered Trusts and Custodial Trusts. Those trusts where the Government has the responsibility for the administration and for investment of the trust are considered Administered Trusts. Those trusts where the Government responsibility is custodial in nature and there is little or no administration responsibility are considered Custodial Trusts. Generally, the responsibility for investment of a Custodial Trust is that of the depositor. A statement of Assets and Liabilities for the Trust Fund is included in the Public Accounts showing the assets and liabilities for Administered Trusts. Details of Custodial accounts are set out in a note to the statement of Assets and Liabilities.

Administered Trusts are divided into five categories:

1. Sinking Funds—This category includes sinking fund contributions deposited with the Minister of Finance by Crown Corporations, Agencies, Boards and Commissions in respect of their direct debt.
2. Funds on Deposit For Investment—Funds surplus to the immediate cash requirement of Crown Corporations, Agencies, Boards and Commissions are deposited for investment with the Minister of Finance. Although certain of these deposits are covered by specific investments in the Trust Fund, the majority of these funds are invested with the Minister of Finance and interest is paid at market rates in accordance with the term of the investment.
3. Banking Facility Accounts—These accounts are operated for those Crown Corporations, Agencies, Boards and Commissions who bank with the Minister of Finance.
4. Operating Trusts—Certain trusts are established where legislation or agreements require receipts and related expenditure to be kept separate from government revenue and expenditure. These "designated trusts" may, in some cases, be used for programs similar to those operated from appropriated funds but are kept separate because a trust requirement has been established. A separate Statement of Receipts and Payments is prepared for each of these operating trusts and is published in the Trust Fund section of the Public Accounts.
5. Miscellaneous Trusts—This category contains trust accounts resulting from the sundry deposit of cash and/or securities with the Government.

V. CHANGES IN FINANCIAL POSITION

A statement presenting the changes in the Government's financial position during the fiscal year is included in Section 1 of the Public Accounts. For purposes of this statement, working capital is defined to include the following:

a) Cash

b) Temporary Investments

c) Current portion of advances and other receivables

Minus

d) Amounts owing to Trust Fund

e) Bank overdraft and promissory notes

f) Accounts payable, accrued charges and funds subject to call

VI. CHANGES IN ACCOUNTING POLICY

Section 10 of thc Financial Administration Act requires a statement of any change in the accounting policies of the Government from those followed in the preceding fiscal year as follows:

a) The reserve accounts pertaining to gravel pits and road machinery of the Department of Highways and Transportation have been abolished. No further allotments from appropriated funds were made to the reserve accounts during the fiscal year and the balances carried forward from the previous fiscal year were fully utilized. In future the estimated expenditures for gravel pits, road machinery and equipment will be included in appropriations to be voted by the Legislature.

POOR

QUALITY

ORIGINAL